Annual Report 2019

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Consolidated Key Figures

		2019	2018	2017	2016	2015
Incoming orders	(EUR million)	95.6	88.1	78.0	82.5	87.0
Revenue	(EUR million)	91.1	83.9	78.7	80.4	82.3
EBIT (operating)	(EUR million)	4.1	3.5	1.1	6.7	7.1
EBITDA (IFRS)	(EUR million)	12.1	9.0	6.8	12.3	10.8
EBIT (IFRS)	(EUR million)	4.3	4.1	2.3	7.2	5.5
Consolidated profit (IFRS)	(EUR million)	2.9	3.3	0.7	5.7	4.5
Earnings per share (IFRS)	(EUR)	0.31	0.38	0.10	0.82	0.65
Non-current assets	(EUR million)	70.6	63.0	45.9	48.9	47.1
Current assets	(EUR million)	46.1	36.8	34.8	34.0	35.4
Equity	(EUR million)	69.6	68.4	52.3	47.6	42.3
Equity ratio	(in %)	59.6	68.5	65.0	57.0	51.0
Cash and cash equivalents	(EUR million)	14.9	9.7	10.3	10.9	9.2
Number of employees (annual average)		404	404	415	430	429

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DEAR SHAREHOLDERS, EMPLOYEES, PARTNERS AND FRIENDS OF SOFTING,

Both our incoming orders (EUR 95.6 million/previous year: EUR 88.1 million) and revenue (EUR 91.1 million/previous year: EUR 83.9 million) reached new record levels in the past year, thus significantly exceeding our guidance in both cases (EUR 88.0 million). The almost 9% growth in revenue resulted in the highest revenue ever recorded in Softing's history. The operating results – EBITDA of EUR 12.1 million (previous year: EUR 9.0 million) and EBIT of EUR 4.3 million (previous year: EUR 4.1 million) – showed that profitability again increased despite an extraordinary charge of EUR 2.2 million relating to the start-up costs of GlobalmatiX. Including this extraordinary charge, this resulted in consolidated profit of EUR 2.9 million after EUR 3.3 million in the previous year. Due to the Group's robust financial position, the original intention was to increase the dividend. However, this can no longer be justified ever since the scope of the coronavirus crisis became apparent at the end of March 2020. To preserve liquidity, the Executive Board and Supervisory Board are therefore reducing their proposal to the General Shareholders' Meeting and are now recommending a minimum dividend of EUR 0.04 (previous year: EUR 0.13). The reduced dividend proposal serves to preserve liquidity in times of the Corona crisis, as it is currently impossible to predict how long the crisis will last.

The Industrial segment, which contributes the most revenue and earnings to the Group, increased its revenue by 10.4% to EUR 58.3 million (previous year: EUR 52.8 million). The IT Networks segment reported a drop in revenues of 16.3% to EUR 10.8 million (previous year: EUR 12.9 million). The Automotive segment is bucking the trend with revenue rising by 20.9% or EUR 3.8 million to EUR 22.0 million (previous year: EUR 18.2 million), making a positive contribution to earnings including the start-up costs of GlobalmatiX.

The Industrial segment once again demonstrated its leading role within the Group despite a challenging economic environment. Our subsidiaries in the USA and Europe made key contributions to earnings in this segment. The acquisition of all products of US-based Phoenix Digital Corporation (PDC) is an excellent addition to Softing's portfolio of high-quality communication solutions in the Industrial segment. It further enhances the position of IIoT solutions in the premium performance segment and at the same time opens up new markets for Softing. We expect this acquisition to generate additional revenue of up to EUR 3 million annually in the future. Softing's Asian business and its fledgling subsidiary in China also recorded growth.

The performance of the Automotive segment is also promising, not just in terms of revenue growth. Earnings showed an even more encouraging trend given that the figure for 2019 is still impacted by forward-looking investments made for the subsidiary GlobalmatiX, which is currently being set up. This is a result of investments in the segment's traditional onboard and offboard diagnostics software business, where Softing is primarily developing software tools that offer customers the distributed development work and dynamic diagnostics structures they need to create the technical foundations for semi-autonomous driving in an age of fundamental upheaval.

GlobalmatiX AG, which has been integrated into the Automotive segment, is currently starting to conduct business with its first major customers. At the same time, field trials are being completed with manufacturers and telematics service providers with the aim of moving on to marketing in 2020. Trials are being prepared with operators of large vehicle rental fleets to hire out all vehicles on a keyless basis, thus simplifying vehicle rental processes considerably. Softing is getting ready to scale up orders, some of which have already been placed, to connect a significant five-figure number of vehicles in 2020. Globalmatix also participates in tenders in the US market to a significant extent.

In the IT Networks segment, revenue continues to be affected by the discontinuation of the low-margin distribution business, which was still not offset completely despite the expansion of the proprietary product business. Combined with high development costs, of which only a portion was capitalized, this also depressed consolidated EBIT in 2019. The newly developed NetXpert – the industry's best-performing qualifier – is now available for distribution. The completely new product line of verifiers is expected to be completed in the second quarter of 2020. IT Networks will be able to offer its customers an internally developed device family of qualifiers and verifiers starting in the second half of 2020. These devices will replace previously purchased equipment and significantly increase the profitability of the IT Networks segment for years to come.

With the developments and events outlined above, we have created the conditions to continue our growth in all three segments in 2020. As a result, our planning for the current year assumes a significant increase in revenue to almost EUR 100 million as well as a rise in EBIT to over EUR 5 million. This takes account of the fact that further expansion of GlobalmatiX in Europe and North America could still have an adverse impact on earnings in 2020 despite expected revenue amounting to several million euros. This was the plan before the coronavirus swept Europe and North America.

Based on current information regarding supplier contracts and material buffers we can largely ensure the supply of electronic components and accessories from the Asian countries initially impacted by the virus. If anything, we are expecting the situation to improve during the course of the year. The Company's own development services are provided by employees at our sites in Europe, the USA, Singapore and China. However, we are expecting reduced capacity due to direct cases of illness, quarantine or mandatory closures. Where necessary, most of our employees can work from home via laptops and VPN access as required.

We believe the situation on the demand side is more critical. Encouragingly, we were able to start the year with more orders than ever before. However, there will inevitably be a negative impact on revenue for at least the first half of the year. Almost all of the trade fairs and sales events that have previously triggered increases in demand have been canceled. We are trying to replace in-person sales contacts with web and video conferencing wherever possible. Although we believe we are well positioned when it comes to project tenders, the scheduling of these processes is increasingly being postponed until the second half of the year. As a result, the key question here is whether and to what extent the losses on the demand side in the first six months of the year can be recouped in the second half of the year. Our operational planning is focused on ensuring that we can offer our customers maximum presence and delivery capabilities in the second half of the year. The fact that the second half of the year traditionally is considerably stronger than the first works to our advantage here.

We had set ourselves the target of matching or even exceeding the previous year's results. This becomes more difficult with every day that the global economy remains in this exceptional situation. It is simply impossible to provide a quantitative forecast for the year at present. We would therefore like to set and further specify our targets over the course of the year. To do this, we will step up our IR communications. We believe the fact that Softing is fundamentally well financed and that we take great care to monitor our liquidity gives us a crucial competitive advantage. If the situation escalates further, we will temporarily adjust our personnel costs in accordance with normal procedures. The Executive Board is also playing its part by leaving half of its 2019 remuneration due for disbursement within the Company on an interest-free basis. Despite all of these challenges, we are looking to the future with confidence, eager to spot the opportunities that come with every crisis.

I would like to wish everyone good health. Let us strive for economic success and work together to face the challenges that lie ahead of us with prudence and by being confident in our own strengths!

Sincerely yours,

Dr. Wolfgang Trier
(Chief Executive Officer)

Softing Shares

KEY DATA OF SOFTING SHARES

ISIN / WKN	DE0005178008 / 517800
Sector	Industrial
Subsector	Advanced Industrial Equipment
Ticker symbol	SYT
Bloomberg/Reuters	SYT GR / SYTG
Trading segment	Prime Standard, Official Trading, EU-regulated market
Stock exchanges	XETRA, Frankfurt, Stuttgart, Munich, Hamburg, Düsseldorf, Berlin-Bremen, Tradegate
Initial listing (IPO)	May 16, 2000
Indices	Prime All Share Performance Index
Share class	No-par bearer ordinary share with a notional value of EUR 1.00 per share
Share capital	EUR 9,105,381
Authorized Capital	EUR 4,552,690 until May 8, 2023
Contingent Capital	EUR 4,552,690 until May 8, 2023
Designated sponsors	ICF Bank AG Wertpapierhandelsbank M.M. Warburg & CO (AG & CO.) KGaA
Research coverage	Warburg Research

SHARE PERFORMANCE IN 2019

Share prices on German stock exchanges began the first few weeks of 2019 by making significant gains. The DAX closed the year at 13,249 points, 25.5% above the level on the last trading day of 2018. Intermittent losses in May, August and October only briefly interrupted the positive overall performance. The SDAX selection index followed a similar trend to reach 12,511 points on December 30, 2019, up 31.6% on its 2018 year-end price.

Persistently low interest rates in Europe and Germany encouraged this positive development in the German stock markets. The European Central Bank (ECB) resumed its bond purchases on the capital markets and left the key interest rate at 0.0%. The trade conflict between the USA and China continued to smolder as geopolitical tensions and social unrest in several countries adversely impacted the global economy. As a result, the International Monetary Fund (IMF) expected significantly lower growth in gross domestic product (GDP) for the euro zone and Germany of 1.2% and 0.5% respectively in 2019 compared to 1.9% and 1.5% respectively in 2018.

Softing began the year at a share price of EUR 6.62, benefited from the traditional January rally and reached its first annual high of EUR 8.82 on February 11. This was followed by a slower but more widespread downward trend to an annual low of EUR 6.32 on April 9, before volatile upward and downward movements again tested the lower resistance line at the annual low of EUR 6.32 on August 16. The share price then climbed to its annual high of EUR 8.98 in similarly volatile fashion on November 12, before ending the year at EUR 7.80 and achieving annual growth of around 18%.

At the end of 2019, the market capitalization of Softing AG was EUR 71.0 million, again well above the previous year's figure of EUR 59.2 million. The share capital of Softing AG remains unchanged at EUR 9,105,381 as of the end of 2019, divided into the same number of no-par-value shares.

TRADING VOLUME

The average daily trading volume of Softing shares on XETRA and the Frankfurt stock exchange again decreased compared to the previous year (8,616 shares) to 7,265 shares in 2019. In the reporting year, just over 1.8 million shares were traded overall, compared with 2.2 million shares in the previous year. The total trading volume (XETRA and Frankfurt) was around EUR 13.9 million (previous year: EUR 18.9 million). Softing supports the liquidity of its shares by using two designated sponsors, ICF Bank AG Wertpapierhandelsbank and M.M. Warburg & CO (AG & CO.) KGaA.

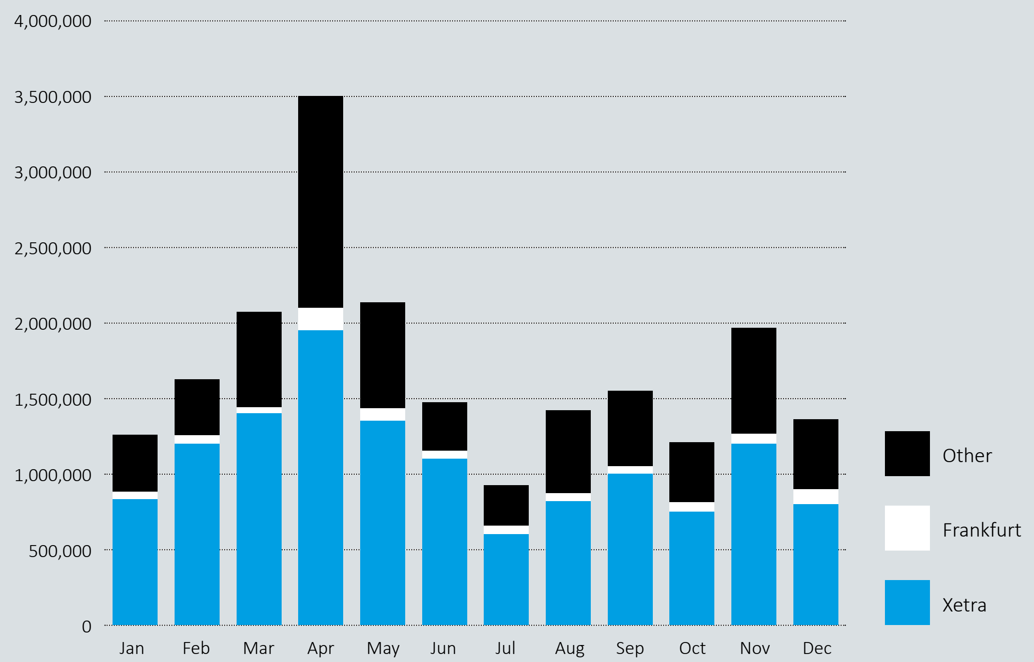
EARNINGS PER SHARE

Earnings per share (EPS) were EUR 0.32 in 2019, compared with EUR 0.38 in the previous year. Softing AG calculates earnings per share in accordance with IAS 33 on the basis of the average number of shares outstanding.

SHAREHOLDER STRUCTURE

As far as the Company knows, Helm Trust Company Limited, St. Helier, Jersey, UK, remains the single largest investor in Softing's 9,105,381 shares. As of the reporting date, Softing AG was not aware of any notifications stating that the shareholder's equity investment had exceeded or fallen below any thresholds compared with the reported share

Trading Volumes of Softing Shares in 2019 in EUR



of 22.4% in the Company's share capital. The next largest position, at 15.9%, is held by Mr. Alois Widmann, the former owner of GlobalmatiX. In addition to these investors, there are a number of institutional investors and several private anchor investors. The remaining shares are in free float.

ANALYST RECOMMENDATIONS

Warburg Research has analyzed the Softing share regularly for years in research reports and last year published six studies and updates on the share. In the four analyses published since July 2019, the bank issued a "buy" recommendation, including in its most recent study published on November 19, 2019, in which it states a target price of EUR 9.50.

Information about analysts' reports on Softing shares is available at www.softing.com under Investor, News & Publications, Research. The Press & Interviews section contains information about the growth prospects of the Softing Group published in a variety of financial newspapers and magazines such as 4Investors, Anlegerbrief, Ariva.de, BerneckerResearch, Börsengeflüster, Börse Online, Capital Depesche, Der Aktionär, Vorstandswoche, Euro am Sonntag, Financial.de, Finanzen.net, Focus-Money, Hot Stock Report, Nebenwerte-Journal, Nebenwerte Magazin, Platow Börse, Prior Börse, Value Depesche, Zertifikate-Journal and others.

CAPITAL MARKET COMMUNICATIONS

Investor relations are a key concern of the Group. In 2019, the Investor Relations team helped to raise awareness of the Company and continually enhance its attractiveness on the capital markets by hosting various roadshows and numerous investor and analyst events. Softing also participated in selected investor conferences, such as the German Equity Forum held in Frankfurt am Main in November, the Munich Capital Market Conference (MKK) and the Zurich Capital Market Conference. For 2020, we have set ourselves the goal of further increasing our presence and visibility in order to provide continuous support for existing and newly acquired investors.

The activities in financial communications were complemented by numerous meetings with institutional and private investors as well as representatives of the press. On the Company's website, investors can find relevant information on the Softing shares (Investor section) and about the Company.

Accepting and Bearing Responsibility – Corporate Social Responsibility (CSR) at Softing

SOFTING – COMMITTED TO ENVIRONMENTAL PROTECTION

As a software and services company, Softing consumes fewer natural resources compared to the manufacturing industry. Nevertheless, we want to use the world's increasingly scarce natural resources as efficiently as possible and keep this consumption permanently low. Our annual environmental balance sheet in the Management Review keeps track of how many natural resources we use (paper, water, waste and electricity consumption).

Softing follows an integrated approach in order to reconcile economic, environmental and social interests. After all, we are convinced that acting responsibly will enhance the performance of our business in the long term and is therefore also in the interests of our shareholders.

Management is responsible for determining the targets and responsibility for implementing these measures. All employees are involved in the process of identifying and implementing targets. This allows us to ensure that sustainability is integrated into all of our divisions.

To improve our environmental performance, we have established both a general environmental protection system and an energy management system and have appointed an environmental officer. We continuously optimize our systems and review our processes and how they interact with each other. In addition to observing statutory regulations and official requirements relating to environmental protection and energy management, we are also actively developing both of these areas in the long term. Although we have not set any quantitative or qualitative targets, we are keen to reduce environmental pollution or, ideally, completely avoid it as far as possible.

SOFTING – THE HIGHEST LEVELS OF SECURITY AND QUALITY

Information security and quality management encompasses the entire product process, from the initial idea, design, development and series production all the way to delivery and customer support.

For us, compliance means observing all relevant statutory obligations, rules, regulations, specialist expertise and personal responsibility relevant to the Company when dealing with the internal and external rules and guidelines of our shareholders and contractual partners. Complying with information security and data protection regulations is a matter of course for us.

Our multi-level risk and opportunity management system in accordance with DIN ISO 31000 records the systematic and ongoing identification, assessment, management, documentation, communication and monitoring of risks and opportunities – across the entire value chain. For processes, risks are assessed with the help of the SWOT analysis.

Our employees are obliged to observe the Code of Conduct and various thematic guidelines (e.g. supplier management, risk and opportunity management, information security). We conduct internal and external audits to regularly review compliance with these regulations and processes.

Stakeholders are defined and evaluated within the scope of ISO 9001 certification. They include individuals, groups and organizations that might have a direct or indirect influence on Softing as a company. The communication channels are also defined and firmly anchored within quality management.

SOFTING – SUPPORTING AND ASSIGNING RESPONSIBILITY TO EMPLOYEES

Annual performance reviews are held with all of our employees to discuss their personal development. Depending on the employee's area of responsibility, individual targets are also agreed for the current year, with both sales targets and the further development of the relevant area of responsibility making up an essential component of this. Managers review the achievement of these targets as part of the annual performance reviews.

Our employees are our main assets. Making the effort to create an environment for our employees in which they enjoy their work and have social safeguards as well is a moral imperative, but it also makes business sense. By offering competitive salaries in combination with a high degree of job security Softing creates the stability required by the families who stand behind our employees. For many years, Softing has almost exclusively offered permanent employment contracts. The only exceptions to this are fixed-term hires to cover maternity leave, for example.

Technically and organizationally challenging tasks, relaxed interactions and fair treatment even in cases of conflict create a positive working atmosphere at Softing. In summary, this results in unusually low fluctuation and the continual growth of individual and collective knowledge. We actively maintain Softing's culture in all of our subsidiaries in Europe, North America and Asia as well.

Softing supports students by cooperating with universities to offer individual programs for the best students in each class and by providing a generous number of internships. All of the technical departments offer topics and jobs for bachelor's and master's theses in coordination with university institutes. A high double-digit number of students take advantage of this each year. For several of our employees, this was their route into Softing.

It is crucial for us to enhance our employees' expertise. Clearly defined yet practical knowledge management enables us to support every employee and develop their knowledge further. Some of our most experienced employees have accumulated over 25 years of professional experience and service with the Company and enjoy sharing their expertise.

We are an internationally focused Group with a wide range of diverse requirements. With this in mind, we rely on employees who bring different experiences, qualifications and perspectives to the Company and use their individual skills to help us successfully exploit new market opportunities. As a result, respect for equal opportunities and diversity is a key aspect of our human resources policy. We take care to ensure that there is no inequality when it comes to remuneration based on factors such as gender or age.

Executives and employees in key positions are usually paid a variable remuneration component in addition to their basic salary to reward their outstanding commitment. This variable component is based on corporate development, business earnings figures and the employee's contribution to achieving agreed targets.

Softing operates around the world and is therefore subject to a variety of legislation. We respect the law and demand the same from all of our employees and business partners.

All employees have access to all necessary sources of information and to our Legal department to avoid any violations of the law. We also protect our employees against unjustified actions by the authorities. Legal violations will not be tolerated, however.

Softing is a global company with headquarters in Haar. Every single day, we experience a closely networked world. Although a company of our size focuses its contributions primarily on its local environment, we take our global responsibility seriously as well.

As a sustainable and healthy company, we have the financial freedom to share our success with the community in which we do business. And this is something we do as well.

Combined Management Report of Softing AG and the Softing Group for the 2019 Financial Year

FUNDAMENTAL INFORMATION ABOUT THE COMPANY AND THE GROUP

BUSINESS MODEL

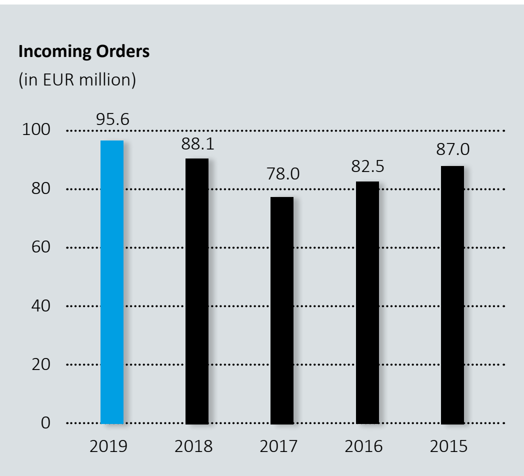
The Softing Group's Business Model

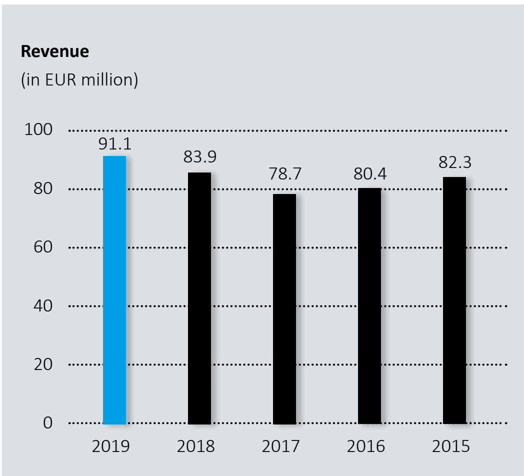
The Softing Group is an established international software and systems house in three segments: Industrial, Automotive and IT Networks. The Company develops complex, high-quality software, hardware and complete system solutions. Hardware prototypes are developed by Softing itself; production takes place externally.

Through its Industrial segment, Softing is a leading provider worldwide of industrial communications solutions and products for the manufacturing and process industry. The products are tailored to the requirements of system and device manufacturers, machinery and plant engineers as well as end users, and they are known for being extremely user-friendly and offering functional advantages. It focuses on components and tools for fieldbus systems and industrial control systems, as well as on solutions for production automation.

Diagnostics, measurement and testing, the core topics covered by Softing's Automotive segment, represent key technologies in automotive electronics as well as such closely related areas in electronics as the commercial vehicle or agricultural machinery industry. The Company's range of products and services encompasses hardware and software, customized solutions as well as on-site consulting and engineering. Softing specializes in the entire life cycle of electronic control units and systems – from development to production all the way to services. Development work in Automotive is focused on standardization. Softing is an active member in the major standards bodies for automotive electronics such as ASAM and ISO. With the acquisition of GlobalmatiX AG in 2018, remote data transmission took on a new dimension for the Group and was brought to market maturity in 2019.

The IT Networks segment is dedicated to testing, qualifying and certifying cabling in IT systems based on worldwide technological standards. Customers use IT Networks' measuring devices for copper and





fiber optic networks to optimize their daily work processes and create security in data exchange.

Consulting, analyses, studies and training round out the range of services offered by all three operating segments. Softing primarily offers its services and products to the European and North American markets. But the Asian markets such as China, Japan and Korea are becoming more and more important.

Presentation of the Segments

Segmentation of the Softing Group is based on its internal reporting and organizational structure, taking into account the different risks and income structures of each individual division. Segmentation by divisions entails allocating Softing's activities to the Automotive, Industrial and IT Networks segments. Please see the section on segment reporting in the notes to the consolidated financial statements for further details as well as quantitative disclosures on the Softing Group's segments.

Softing AG

Softing AG is the Softing Group's central management holding company.

Industrial Segment

Softing Industrial Automation GmbH

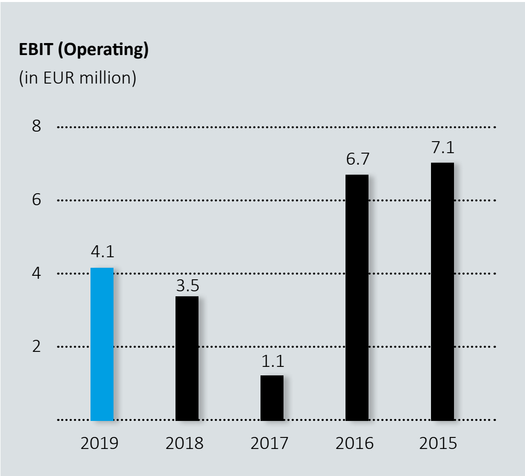
Softing Industrial Automation GmbH is a leading provider worldwide of industrial communications solutions and products for the manufacturing and the process industry. The products are tailored to the requirements of system and device manufacturers, machinery and plant engineers or end users, and they are known for being user-friendly and offering functional advantages.

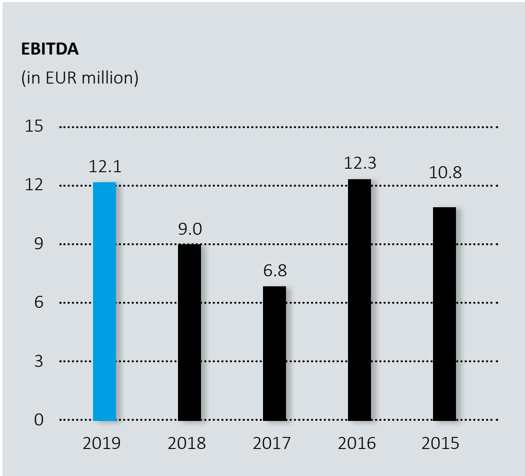
Softing Italia s.r.l.

Softing Italia s.r.l. is a subsidiary of Softing Industrial Automation GmbH. Softing Italia s.r.l. is based in Milan and serves customers in Italy locally. In 2019, this company once again made a positive contribution to the overall earnings of the Softing Group.

Online Development Inc. (OLDI) and Softing Inc.

Online Development Inc. (OLDI) and Softing Inc. (both domiciled in Knoxville, TN), and the sales office Softing Inc. (Newburyport, MA) are organizationally subsidiaries of Softing North America Holding Inc domiciled in Delaware. An Original Design Manufacturer (ODM) for almost 30 years, OLDI offers a portfolio of hardware and software





products that supports a large number of industrial market segments. Major brand manufacturers use OLDI's wealth of expertise in industrial data processing and communication to enhance the market launch of both innovative and proven technologies. Serving the North American market, Softing Inc. handles project work with its internal resources while providing local support to product business. In 2019, the two American companies made a positive contribution overall to the success of the Softing Group.

Buxbaum Automation GmbH

The sales office Buxbaum Automation GmbH, Eisenstadt serves customers in Austria locally. The company again made a positive contribution to the overall earnings of the Softing Group in 2019 with it sales in the Industrial and IT Networks segments.

IT Networks Segment

Softing IT Networks GmbH and Softing Singapore Pte. Ltd.

Softing IT Networks GmbH, domiciled in Haar, near Munich, Germany, provides IT network diagnostic equipment, which is used in industrial automation, office installations, and data centers. Softing Singapore Pte. Ltd., domiciled in Singapore, supplies test and measuring devices for copper and glass fiber data networks. This includes both the development and manufacture of ultra-high performance products in this field and accessories to support sales activities. Apart from sales and distribution, the company provides technical support and calibration services for the products offered. The two Softing IT Networks companies make a positive contribution to the Group's international success with a growing product portfolio that consists of both in-house and third-party products.

Softing S.A.R.L

Softing S.A.R.L., domiciled in Paris, France, provides the legal and organizational framework for the sales and marketing activities of the Softing Group in France.

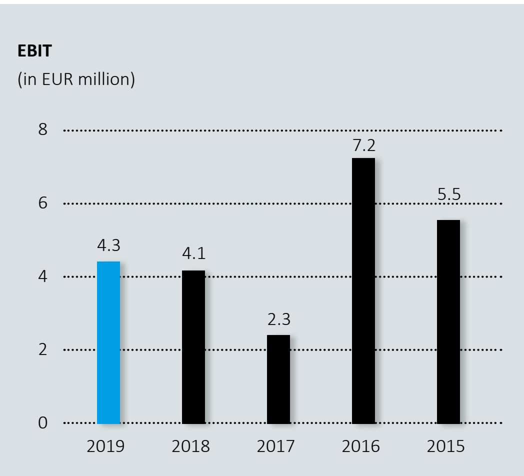
Softing Electronic Science & Technology (Shanghai) Co., Ltd.

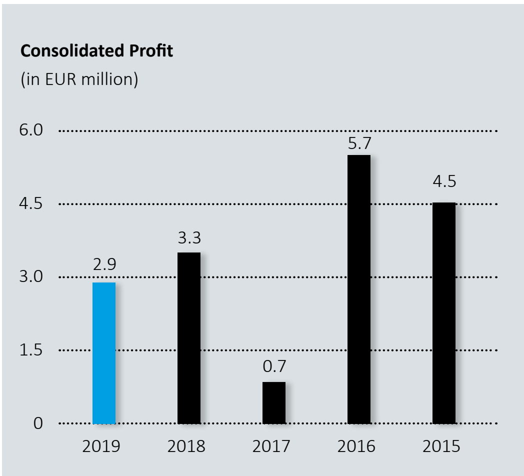
Softing Services GmbH and Beijing Windhill Technology Co., Ltd. operate a joint venture concerning the marketing of Softing Group products in the Chinese market.

Automotive Segment

Softing Automotive Electronics GmbH

Softing Automotive Electronics GmbH, domiciled in Haar, Germany, offers products and services for diagnostics and test automation. The comprehensive process-based approach of the Softing solutions enhances quality and reliability in control unit communications. With over 80,000 installations,





Softing holds a leading position in the growth market for diagnostic and test systems in the field of automotive electronics. Automobile manufacturers and system and control unit suppliers around the world rely on Softing's proven hardware and software tools and solutions. SMT (Softing Mess-Technik) also covers the entire field of mobile and stationary data logging systems.

Softing Engineering & Solutions GmbH

Softing Engineering & Solutions GmbH organizationally is a subsidiary of Softing Automotive Electronics GmbH. Softing has successfully engaged in the field of automotive test solutions for more than 20 years and offers extensive expert knowledge on every aspect of automated testing of automotive electronics. The Company has already implemented functional tests and test designs for many control units used in motor vehicles. To offer the best possible support, Softing Engineering & Solutions GmbH provides high-quality services directly on customers' premises. Competent consulting and engineering services focused on the Company's core competence – diagnostics, measurement and testing – are rendered to customers. Its well-trained staff in some cases work directly on site. Establishing close links between all important participants is a hallmark of the approach of Softing Engineering & Solutions GmbH and plays a decisive role in the success of its projects.

Softing Automotive Electronics GmbH

Softing Automotive Electronics GmbH functions as an internal development company in the Automotive segment.

GlobalmatiX AG and GlobalmatiX Inc.

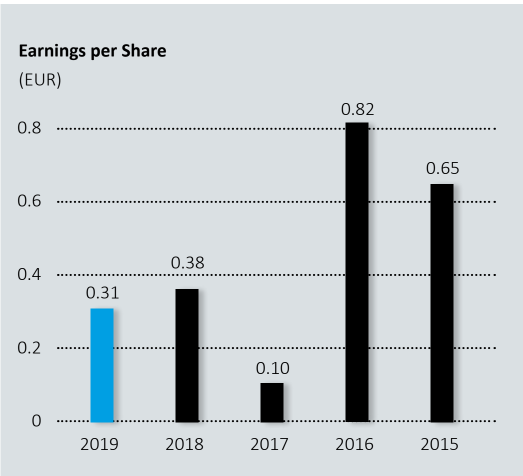
GlobalmatiX AG domiciled in Liechtenstein is a mobile virtual network operator (MVNO) offering mobile data communications for vehicles and machinery in Europe and North America where such technology is needed in the areas of (semi-) autonomous driving and other connected services for vehicles and machinery. This acquisition enabled Softing to significantly extend its capabilities in the megatrends of digitalization and Industrie 4.0 and lays the foundation for new service-focused revenue. GlobalmatiX Inc. took over marketing of GlobalmatiX AG products in North America.

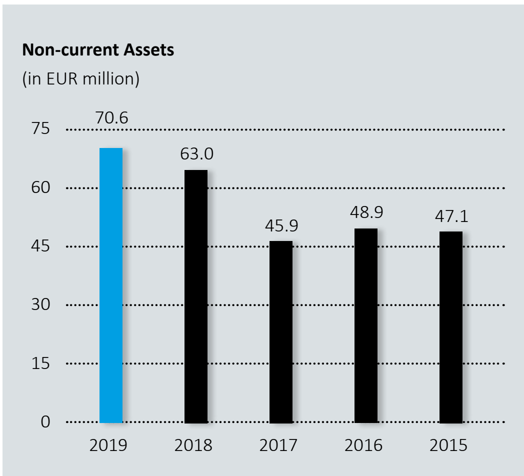
Softing Services GmbH

Softing Services GmbH, domiciled in Haar, Germany, provides services for Softing AG's operating companies.

SoftingROM s.r.l.

The subsidiary SoftingROM s.r.l. (SoftingROM), which is domiciled in Cluj, Romania, is a subsidiary of Softing Services GmbH. SoftingROM forms an important pool of IT specialists for complex





development tasks within the Softing Group and is a strategically important part of the Softing Group.

Softing North America Holding Inc.
Softing North America Holding Inc. is the central holding company for the North American subsidiaries.

Business Model of Softing AG
Softing AG acts as a management holding company for the Softing Group. It generates revenue from invoicing for management services, legal assistance and quality management services provided to the subsidiaries. Beyond this, the business model is limited to the management of the equity investments.

These consolidated financial statements were prepared in accordance with Section 315e (1) German Commercial Code subject to application of the International Financial Reporting Standards (IFRS) as applicable within the European Union.

INTERNAL MANAGEMENT SYSTEM

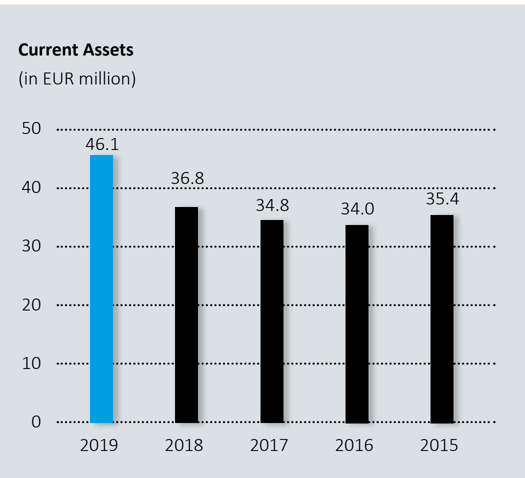
The Softing Group uses key performance indicators (KPIs) to manage its business; these KPIs include consolidated revenue; earnings before interest and taxes (EBIT), operating EBIT (EBIT adjusted for capitalized development services and their amortization as well as the effects of purchase price allocation), which is derived from EBIT. Working capital is also managed via selected KPIs. Working capital mainly comprises inventories as well as trade receivables and trade payables. With regard to Corporate Social Responsibility (CSR), reference is made to the CSR reporting in the Annual Report.

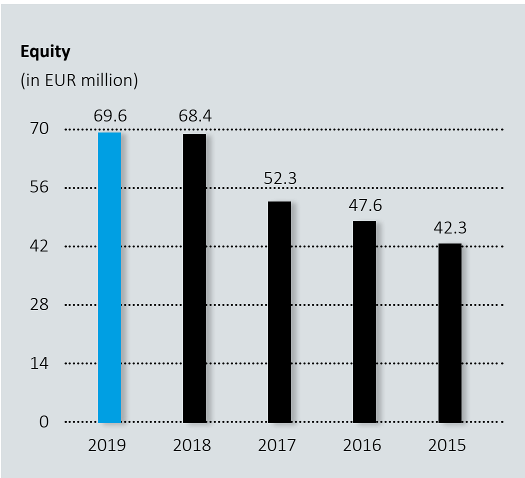
Inventories are analyzed on an ongoing basis, and any need for writedowns is determined based on inventory coverage. Short-term sales forecasts are used to manage orders for new goods based on inventory availability. The aim is to have delivery capacity at all times so that our customers can also be supplied with products at short notice.

Trade receivables are periodically monitored based on their aging structure and tested for impairment. Customers are usually subject to internal credit limits. There is strict follow-up of past-due receivables.

Trade payables are mostly settled using available cash discounts.

On account of its business model, internal management at Softing AG is based mainly on the profits or losses under profit transfer agreements and dividends of Group companies. By managing the subsidiaries as explained above, Softing AG also manages the profits or losses under profit transfer agreements in the parent company itself.





Research and Product Development

For years, the Softing Group has invested a large portion of the cash generated by its revenue in research and development. In total, Softing invested EUR 20.6 million (previous year: EUR 20.3 million) in the development of new products and the enhancement of existing ones in connection with customer projects. This corresponds to an investment ratio (ratio of development costs to revenue) of 22.6% (previous year: 24.2%), of which the Softing Group capitalized 26.7% (previous year: 21.7%).

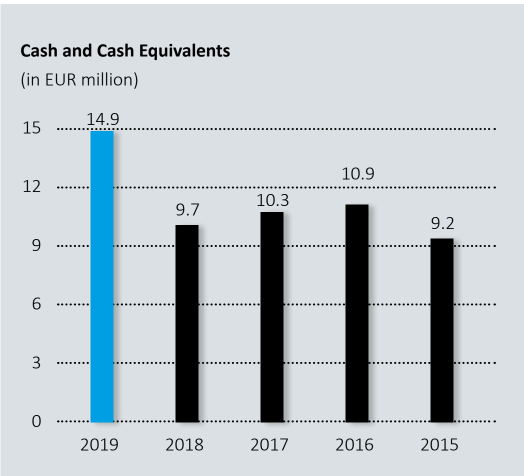
In the past financial year, amortization of capitalized development costs amounted to EUR 3.3 million (previous year: EUR 2.1 million).

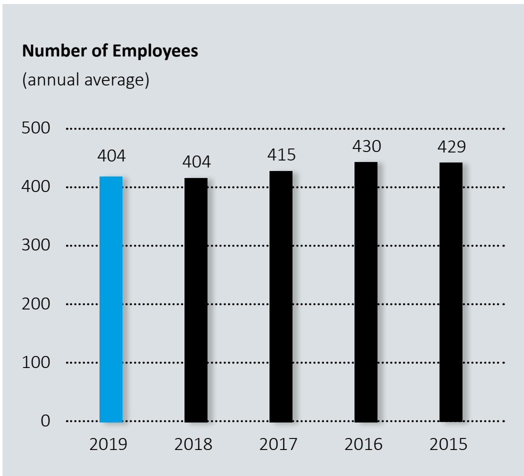
At year-end, 226 employees were engaged in research and development (previous year: 232). Softing AG itself is not engaged in any research and development activities. These take place exclusively at the operating entities, as shown below.

A wealth of knowledge gleaned from software and hardware development plus excellence in embedded engineering/systems engineering forms the basis for the long years of business success at Softing Industrial Automation GmbH. An increasing tendency to shift hardware development activities into software development has been a decisive factor in the sharp rise in demand for the Company's technological services. The megatrends of digitalization, IoT, IIoT, and Industrie 4.0 have resulted in significantly greater demand for all of the Company's technologies in every area required for industrial communications.

In the 2019 financial year, Softing IT Networks brought to market a number of new products in the field of wiring certification and qualification. One collaborative project with an external development partner resulted in the introduction of a new NetXpert XG device series for the qualification of wiring up to 10G Ethernet. Softing chalked up a world first with this series, since the market had previously offered qualifiers only up to 1G Ethernet. In another project, the WireXpert series was equipped with cloud connectivity, thereby simplifying distributed work across multiple teams for larger installation companies.

In the wireless LAN segment, Softing IT Networks launched WaveXpert in 2019, representing the first Softing-branded wireless product. WaveXpert facilitates detailed packet analysis in wireless networks. In the cable verifier segment, the Company commissioned a development partner to develop an entirely new device series consisting of four devices, with the aim of replacing the existing Cablemaster series in 2020. Since this product family will also be launched under the Softing brand, this will again increase the proportion





of proprietary Softing products in the Company portfolio.

As a member of international standardization bodies, Softing actively develops measurement systems for new Ethernet technologies – primarily for industrial applications. In this field, Softing was a co-founder of the SPE Partner Network in late 2019, with the aim of helping to design and actively market the Single Pair Ethernet (SPE) standard.

In 2019, Softing Automotive Electronics GmbH (SAE) successfully placed the new product generation of its DTS9 diagnostic tool set with pilot customer Daimler, on the terms of a 3-year agreement. Especially relevant here is the fact that the tool uses a software-only rental model, which makes annual earnings plannable in following years. A global rollout at Daimler began back in 2019 and is now generating demand in the Tier 1/2 supplier segments. As a result, migration of Tier 1/2 suppliers to DTS9 will play a major role in 2020. Here too, the aim will be to switch over to a rental model – particularly for larger Tier 1 suppliers. From the second quarter of 2020, the standard product variant DTS9 will be used to address OEM and Tier 1/2 suppliers in the Passenger Car market segment. Relevant discussions with strategic target customers are already ongoing. In the third quarter of 2020, new functionality will be introduced step by step, especially for remote applications and in terms of security aspects. The DTS9 diagnostics middleware Smart Diagnostic Engine (SDE, formerly COS) is the key driver here. SDE has also been sold as a standalone product to major clients Cummins and Daimler since 2019, and has already been successfully rolled out worldwide by Cummins. New customer acquisitions are planned for 2020. The new product generation of the TDX service tester was also successfully launched on the market on 2019. Two new customers – Bosch-Rexroth and ABT – have now simultaneously acquired this Softing solution. New prospects for TDX will be pursued in 2020. At the same time, key areas of focus for development work will include the expansion of mobile platforms, flexible integration with database systems, and the utilization of scalable cloud technologies. In the Vehicle Communication Interfaces (VCI) product segment, VIN|ING 2000 was successfully placed with lead customer Porsche in 2019, where a phased rollout will be used to replace its predecessor HSC in vehicle production. The primary objective in 2020 is the successful sale of this product version to other international clients. Negotiations – some at an advanced stage – are now ongoing with customers worldwide. Key points of focus for the development side during 2020 include the expansion of mechanisms for powerful, secure, and flexible configuration, as well as further optimizations to device availability. Following the successful launch of VIN|ING 6000 at pilot customers in 2019, development programs for the VIN|ING 3000 and VIN|ING 6000 series in 2020 will concentrate on completion of the market-ready version and its associated Vehicle Communication Framework (VCF) test middleware in particular. Since 2019, all development work on the Softing Messtechnik (SMT) platform has been commissioned and paid for by Porsche AG. In the mobile segment, Porsche will replace SMT in the next 10 years, with a 20-year time frame being similarly planned for fixed use (test benches). A set of new technologies is therefore being developed: one example is a new RGC-PC.3 in 2019/2020, which forms the centerpiece of the SMT architecture.

GlobalmatiX AG was able to prepare a joint market launch in mid-2019, following the signing of the first contract with a major automotive manufacturer from Germany. As a new telematics supplier, this car maker plans to enter the European market in early 2020 and has accordingly developed its own, brand-neutral fleet management solution for commercial vehicles. Innovations here include remote diagnostics and real-time servicing data for fleets with mixed vehicle brands. The GlobalmatiX (Platform-as-a-Service) solution was selected after extensive field testing. The unique level of security offered by GlobalmatiX's Connected Car2Cloud – namely the hardening of all transactions from the car via the hardware-based eSIM chip to the cloud – also enables the automotive manufacturer to acquire fleet operators with key security requirements.

This important security feature, developed by GlobalmatiX and already submitted as a patent application, passed a set of extensive penetration and hacking tests conducted by the automotive manufacturer, and has also been verified by TÜV Nord.

REPORT ON ECONOMIC POSITION

MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

Further Slowdown in Global Economy in 2019

According to the Institute for the Global Economy (IfW) in Kiel, Germany, world economic growth lost further steam in 2019. On the whole, the world economy experienced a further slowdown in the past year. In the third quarter, global output rose by just 0.8%, and for the final quarter of the year the IfW indicator for world economic activity – which is calculated on the basis of sentiment indicators in 42 countries – is signaling a further slowdown. The situation in the advanced economies in particular has deteriorated further, while the economic trend in many emerging markets has stabilized and recently even demonstrated some upward momentum. For 2019 overall, the IfW now expects global output to increase by just 3.0%, compared to 3.7% in 2018. This represents a downward adjustment of 0.1 percentage points by comparison with its September forecast and is 0.4 percentage points lower than had been expected a year ago. The weakness of industry and world trade remains a key factor. The growth trend for industrial output increasingly suffered a loss of momentum from the turn of the year 2017–2018 onwards, and according to the CPB World Trade Monitor figures this completely ground to a halt over the course of the year. In the advanced economies, industrial production has even contracted recently; in the emerging markets it picked up slightly, particularly since the output trend in China continued to point upward despite a significant slowdown. This trend was accompanied by a markedly weak trend for world trade, which declined for three consecutive quarters from the fourth quarter of 2018 onward. While this rose slightly at the end of the period by comparison with the previous quarter, this still fell considerably short of the level realized a year previously. *(Source: IfW, Kiel Economic Report No. 61, 2019/Q4)*

Mechanical Engineering Faces a Difficult Environment

According to the German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau – VDMA), Germany's mechanical engineers face an increasingly difficult economic environment. 2019 was shaped by a weak global economy, increasingly tough threats and sanctions in global trade disputes as well as a far-reaching structural transformation in the automotive industry. These three trends played a key role in incoming orders and output slipping clearly below the previous year's level in 2019. In the first ten months of the year, output in the German mechanical engineering sector fell by 1.8% in real terms year-on-year, while incoming orders declined by 9.0% in the same period. In October, at 83.9% capacity utilization was below the long-term average level of 86.2%. For the coming year, the VDMA's economists continue to expect a further decline in output of 25% in real terms. There is no sign of any rapid improvement. The order books will only fill up over the course of the year, subject to more positive business climate data. Due to technically influenced lead times, these orders will not result in any production growth before the second half of the year. This is subject to the key assumption that a further worsening of the trade war between the USA and China will be avoided. The current easing of the economic situation in Germany and in key foreign markets represents not much more than the end of the downward process. This may give rise to a slight recovery during 2020, but it is too soon to give the all clear, since the global economic trend will remain adversely affected by a high degree of uncertainty. *(Source: VDMA, Maschinenbau muss sich in schwierigem Umfeld behaupten, www.vdma.org)*

Further Decline in Incoming Orders in the Electrical and Electronics Industry

In the period from January up to and including November 2019, orders were 3.4% lower than in the previous year, according to the German Electrical and Electronic Manufacturers' Association (Zentralverband Elektrotechnik- und Elektronikindustrie e.V. – ZVEI). Domestic orders fell by 4.4%, while foreign orders declined by 2.8%. Demand from customers in the eurozone was 4.3% lower in the first eleven months of the year than in the previous year. Orders from third-country business partners were down by 1.9%. In the period from January to November 2019, the aggregated sector output has thus decreased by 4.2% on the previous year. Electrical and electronics companies' production plans recovered in December but remained negative on balance. 14% of companies intend to increase their output in the coming three months, while 22% intend to cut back. The remainder expect their level of production to remain unchanged. In the period from January to November 2019, aggregated sector revenue amounted to EUR 175.2 billion. This was 1.4% lower than in the same period in 2018. Domestic revenue declined by 2.1% to EUR 82.7 billion and foreign revenue by 0.7% to EUR 92.5 billion. Eurozone revenue fell slightly, by 0.7% (to EUR 34.1 billion) between January and November 2019. Business with third countries also decreased, by 0.8% (to EUR 58.4 billion). The business climate in the German electrical and electronics industry continued to improve in December 2019 and is now at its highest level for six months. The assessment of the current situation and general business expectations improved in December, the latter more strongly than the former. Nonetheless, they were both still below the zero line and the climate was thus negative in overall terms. 18% of the companies in this sector report that their current business situation is good, 63% stable and 19% poor. Over the next six months, 22% of firms expect business to improve, 54% that it will remain the same and 24% that it will decline. In December 2019, the balance of positive and negative export expectations was positive for the first time in six months and now amounts to +6 points. *(Source: ZVEI business barometer January 2020, www.zvei.org)*

Challenging Year 2019 for the Automotive Industry

The German Association of the Automotive Industry (Verband der Automobilindustrie – VDA) has reported that the past year was a challenging one for international automotive markets. While the European passenger car market exceeded its prior-year level and demand also increased in Brazil, in the USA fewer light vehicles were sold than in 2018. The Asian markets were also weak: China, Japan and India all fell short of the previous year's level. The Russian market also declined. In Europe, a total of 15.8 million passenger vehicles were newly registered in 2019, around 1% more than in the previous year. The large-volume markets differed in terms of their development. Germany (+5%) and France (+2%) expanded their market volume. In Italy, new registrations were at the same level as in the previous year. On the other hand, the United Kingdom (–2%) and Spain (–5%) registered declines. Of the roughly 30 European markets, 20 countries ended the year with a positive result. In December, passenger vehicle sales in Europe were 21% higher than in the same month in the previous year, with almost 1.3 million units. In the United States, the light vehicles market (passenger vehicles and light trucks) closed out 2019 with almost 17.0 million vehicles sold (–1%). For the first time since 2014, the US market thus no longer exceeded the 17 million mark. Sales of passenger vehicles decreased 11%, while sales in the light truck segment – which now accounts for

72% of the overall market – rose 3%. In December, 1.5 million light vehicles were sold (–6%). The volume of the passenger car market in China dropped by nearly 10% to 21.0 million new vehicles in 2019. Following 2018, this represented the second decline in the past few decades. At just short of 2.2 million units, the sales volume in December was 1% below the prior-year level. China's weaker overall economic growth is thus reflected disproportionately strongly in the passenger car market. The Indian passenger market was unable to match its strong previous year in 2019. Overall, 3.0 million units were sold, 13% less than in 2018. In December, demand was 1% below the prior-year level (235,800 units). In 2019, with 4.3 million passenger cars sold the result for the Japanese new car market was 2% lower than in the previous year. Sales of new cars declined, in particular, following the value-added tax increase in October 2019. In December, 284,300 units were sold, 11% fewer than in the same month in the previous year. Following two strong growth years, the Russian light vehicle market suffered a loss of momentum in the past year. Over the course of the year, with almost 1.8 million new vehicles sold the sales volume was 2% below the prior-year level. December saw the sale of 179,200 light vehicles, up 2%. The Brazilian market for light vehicles grew considerably in 2019 as a whole: New vehicle sales rose 8% to 2.7 million units, marking the third consecutive year of growth after a long period of weakness. In December, the increase was 12% (252,000 units). *(Source: VDA, press releases dated January 16, 2020, www.vda.de)*

COURSE OF BUSINESS

The Softing Group continued to find its way back to its previous revenue levels in 2019, with revenue growth reported in all markets and the Industrial and Automotive segments. In 2019, revenue stood at EUR 91.1 million (previous year: EUR 83.9 million), EUR 7.2 million (8.6%) over the previous year's level, which exceeding the forecast of EUR 88.0 million by around EUR 3.1 million. EBITDA amounted to EUR 12.1 million in the year under review (previous year: EUR 9.0 million), and the EBITDA margin was 13.3% (previous year: 10.8%). Operating EBIT (EBIT adjusted for capitalized development services of EUR 5.5 million and amortization of EUR 3.3 million on these as well as effects from purchase price allocation in the amount of EUR 2.0 million) in 2019 totaled EUR 4.1 million (previous year: EUR 3.6 million). As a result, the guidance of EUR 3.7 million was exceeded by EUR 0.4 million. In 2019, EBIT at EUR 4.3 million (previous year: EUR 4.1 million) exceeded the guidance of EUR 4.0 million, despite downward pressure of around EUR 2.2 million from expanding the business of GlobalmatiX.

The Group's expense items developed as follows:

	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Cost of materials	39,311	36,471
Employee benefits costs	35,441	33,440
Depreciation, amortization and impairment losses	7,820	4,937
Other operating expenses	10,474	10,830
Operating expenses	**93,046**	**85,678**

The Industrial segment generated revenue of EUR 58.3 million (previous year: EUR 52.8 million). EBITDA totaled EUR 7.3 million (previous year: EUR 5.3 million). EBIT rose due to higher revenue, from EUR 3.2 million in the previous year to EUR 4.4 million.

The Automotive segment's revenue increased by 21% to EUR 18.2 million to EUR 22.0 million, producing EBITDA of EUR 3.5 million after EUR 2.7 million in the previous year. EBIT fell slightly from EUR 0.6 million to EUR 0.4 million due to the charges for the expansion of GlobalmatiX's business.

Revenue in the IT Networks segment fell by 16% from EUR 12.9 million to EUR 10.8 million, with EBITDA of EUR 0.4 million (previous year: EUR 0.7 million) and EBIT of EUR –0.5 million (previous year: EUR 0.2 million).

This resulted in consolidated profit after interest and taxes of EUR 2.9 million (previous year: EUR 3.3 million).

Course of Business of Softing AG

Due to a larger profit transfer, the profit for the year of Softing AG, the Group's parent company, rose by EUR 4.2 million from EUR –1.4 million in 2018 to EUR 2.8 million in 2019.

EARNINGS

Results of Operations of the Softing Group

The Group's financial key performance indicators are revenue, operating EBIT and EBIT.

In the past financial year, consolidated revenue increased by 8.6% to EUR 91.1 million. The Industrial segment alone contributed EUR 5.5 million to the increase in revenue. Own work capitalized (product developments) was EUR 5.5 million, EUR 1.1 million above the previous year's level (EUR 4.4 million); the share of own work capitalized in consolidated revenue rose slightly from 5.3% to 6.1% in the 2019 financial year. Other operating income of EUR 0.8 million was significantly impacted by income from exchange differences of EUR 0.4 million. Other operating income in the previous year totaled EUR 1.4 million.

The cost of materials increased by EUR 2.8 million or 7.8%. The main reason for this increase is the strong growth in revenue generated by the segments, with corresponding inventories of own and third-party products compared to the previous year. All told, the cost of materials ratio (cost of materials relative to revenue) was 43.2% (previous year: 43.5%), and gross profit (revenue less cost of materials) increased accordingly from EUR 47.4 million to EUR 51.8 million.

Staff costs rose by 6.0% to 35.4 million EUR, mainly due to an increase in variable remuneration and salaries. As of the reporting date, the Softing Group had 407 employees (previous year: 402).

Depreciation, amortization and impairment losses on intangible assets and property, plant, and equipment/right-of-use-assets increased from EUR 4.9 million to EUR 7.8 million, due to the increase in the write-down from the purchase price allocation of GlobalmatiX and the first-time adoption of the new lease accounting standard IFRS 16.

Other operating expenses fell slightly by EUR 0.4 million to EUR 10.5 million, mainly as result of reduced external services in product development.

A key parameter for evaluating and managing results of operations is earnings before interest and taxes (EBIT) of EUR 4.3 million (previous year: EUR 4.1 million) and the operating EBIT derived from it (EUR 4.1 million; previous year: EUR 3.5 million).

The interest result fell from EUR –0.2 million to EUR –0.4 million, due to accounting in accordance with IFRS 16 and interest rate changes in pension provisions.

After accounting for taxes on income, consolidated profit amounted to EUR 2.9 million (previous year: EUR 3.3 million).

Results of Operations of Softing AG
As a management holding company, Softing AG only generated revenue from performing services for its subsidiaries. These services principally entailed active corporate management of the subsidiaries as well as legal assistance and quality management services. Fixed portions of the costs incurred for these services were charged to the subsidiaries. The costs for general controlling activities were not allocated to the subsidiaries.

Softing AG does not itself operate directly in the market, instead receiving income from equity investments and from profit and loss transfer agreements. Profit and loss transfer agreements are in place with the following subsidiaries:

Directly:

- Softing Industrial Automation GmbH
- Softing Automotive Electronics GmbH
- Softing Services GmbH
- Softing IT Networks GmbH

Indirectly (via Softing Automotive Electronics GmbH):

- Softing Engineering & Solutions GmbH

Income from profit transfer is a key control parameter for Softing AG and constitutes the financial key performance indicator. This changed from EUR –1.3 million to EUR 1.8 million in the past financial year. The guidance for the income from profit transfer for the 2019 financial year was EUR 1.0 to 1.4 million and was therefore exceeded.

Staff costs rose from EUR 2.3 million to EUR 3.1 million due to higher pension expenses and an increase in variable salary components.

Other operating expenses rose overall by EUR 0.8 million to EUR 0.9 million.

Due to higher costs related to the management of subsidiaries, revenue from affiliated companies in 2019 rose from EUR 2.9 million to EUR 3.3 million.

Provisions for taxes amounting to EUR 0.1 million (previous year: approx. EUR 0.0 million) were recognized for obligations arising from corporation tax and trade tax in the previous year (tax audit for the years 2013 to 2016). These were offset in the year under review. However, other assets also include a claim for repayment of EUR 0.4 million for 2017. This reclaimed payment resulted from adjustments to earnings in the financial statements under commercial law and the tax accounts of subsidiaries with project business, and from a corporation tax loss carryback.

The net profit for the year was EUR 2.8 million (previous year: net loss of EUR 1.4 million).

FINANCIAL POSITION

Financial Position of the Softing Group

Financial Management

As part of the Group's financial management, the German subsidiaries are included in a cash pooling system managed by Softing AG. Where deemed necessary, the cash flows of companies doing business in foreign currencies are hedged using conventional forwards. No forward contracts were entered into in the past financial year.

Capital Structure

The equity of the Softing Group at the end of 2019 stood at EUR 69.6 million (previous year: EUR 68.4 million).

The equity ratio in the financial year was 59.6%, after 68.5% in the previous year.

Non-current liabilities amounted to EUR 25.5 million (previous year: EUR 9.4 million). The increase results from taking up long-term loans, an increase in pension provisions and the first-time recognition of non-current lease liabilities.

Current liabilities fell by EUR 0.3 million to EUR 21.7 million, due mainly to the repayment of short-term loans.

Capital Expenditure

In the financial year ended, the Softing Group invested EUR 7.7 million (previous year: EUR 6.4 million) in internally and externally generated intangible assets. At the end of the year, the Group also acquired an equity interest of less than 10% in a start-up company in the Automotive segment. The obligation to transfer an additional EUR 1.5 million to the capital reserves of the investee arising in this context was fulfilled on January 2, 2020. Investments in other non-current assets amounted to EUR 1.2 million in 2019 (previous year: EUR 1.2 million). Please refer to the Research and Development section for information on investments in the specific segments.

Liquidity

The cash flow from operating activities rose by EUR 1.0 million, from EUR 9.4 million to EUR 10.4 million, primarily due to higher earnings.

Funds used for investing activities amounted to EUR 8.5 million (previous year: EUR 7.7 million), comprising mainly investments in new product development and replacement investments.

The cash flow from financing activities amounted to EUR 3.4 million and was impacted by the repayment of loans in the amount of EUR 7.5 million, new long-term borrowings of EUR 14.0 million and the dividend payment of EUR 1.2 million.

The cash available to the Group amounted to EUR 14.9 million at year-end (previous year: EUR 9.7 million).

Financial Position of Softing AG

Capital Structure

Equity increased from EUR 48.3 million to EUR 49.9 million as of December 31, 2019. The change is due to the payment of the dividend in the amount of EUR 1.2 million and the net profit for the year in the amount of EUR 2.8 million.

The equity ratios was 68.8% (previous year: 76.7%)

The increase in provisions from EUR 2.2 million to EUR 3.2 million is principally the result of changes in provisions for pensions and personnel.

Other liabilities increased from EUR 2.4 million to EUR 3.3 million due to payment of variable remuneration entitlements, a purchase price liability for an equity investment, higher salary tax payments and lower VAT payments.

Liabilities to banks increased by EUR 6.9 million to the complete repayment of existing (short-term and long-term) loans of EUR 7.1 million and the offsetting effect of taking out new long-term operating loans of EUR 14.0 million.

Liquidity

The subsidiaries obtained financing almost exclusively from Softing AG's cash pooling system and its own cash contributions to the operations of subsidiaries not participating in the cash pooling system. Separate bank loans were taken out by subsidiaries only to a minor extent. The fixed purchase price of OLDI was financed through EUR 11.0 million in total loans obtained by Softing AG from two commercial banks in Germany. These amounted to EUR 0.0 million as of December 31, 2019. To repay these loans and to finance GlobalmatiX AG and product innovations, Softing AG has taken out loans totaling EUR 14.0 million from two German commercial banks in 2019. As of December 31, 2019, these loans are measured at EUR 14.0 million.

Funds at year's end were EUR 12.6 million (previous year: EUR 5.1 million). There are unused credit lines in the amount of EUR 7.4 million (previous year: EUR 4.0 million).

NET ASSETS

Net Assets of the Softing Group

Non-current assets comprise items including intangible assets, goodwill, property, plant, and equipment, and deferred tax assets and at the end of 2019 represented 60.5% of total assets (previous year: 63.1%). This was offset by equity and non-current liabilities representing 81.4% (previous year: 77.9%).

Non-current assets rose by EUR 7.7 million to EUR 70.7 million. This was largely due to the initial recognition of assets in accordance with the new IFRS 16 lease accounting standard and the acquisition of an equity interest of less than 10% in a start-up company in the Automotive segment at the end of the year.

Current assets comprise inventories, trade receivables, and cash and cash equivalents. This figure rose from EUR 36.8 million to EUR 46.1 million, mainly due to an increase in cash by EUR 5.2 million, and trade receivables and inventories by EUR 3.7 million.

Total assets in the reporting year grew to EUR 116.8 million (previous year: EUR 99.8 million).

Net Assets of Softing AG

The total assets of Softing AG rose by EUR 8.0 million year-on-year to EUR 72.5 million (previous year: EUR 63.0 million).

Interests in affiliated companies changed by EUR 0.1 million to EUR 31.1 million (previous year: EUR 31.2 million) due to a write-down.

In the 2019 financial year, the Company's short-term loans were fully repaid.

In 2019, the Company's long-term loans were renegotiated with its main banks, its old debts in the amount of EUR 1.7 million were fully repaid and new loans were taken out with a volume of EUR 14 million. The Company is exempt from making payments of principal on these loans for a period of 2 years. They will subsequently be repaid within 5 years on a straight-line/quarterly basis. In the course of obtaining these loans, Softing AG agreed to comply with financial covenants entailing an obligation to maintain certain financial ratios. The financial covenants require Softing to maintain a specified equity ratio and not exceed a maximum debt-to-equity ratio for the Group. During the financial year, Softing AG had no problem fulfilling the covenant regarding equity ratio and debt-to-equity ratio.

Loans to affiliated companies increased by EUR 1.1 million to EUR 15.5 million due to disbursements. Cash and cash equivalents increased to EUR 12.6 million.

Receivables from affiliated companies were down from EUR 11.8 million to EUR 11.3 million as a result of a decrease in receivables from cash pooling.

OVERALL ASSESSMENT OF THE POSITION OF THE SOFTING GROUP AND OF SOFTING AG

While the financial position and net assets of both the Softing Group and Softing AG continue to be very solid, the results of operations improved year-on-year in 2018 due to higher earnings and lower losses of some of the subsidiaries.

REPORT ON POST-BALANCE SHEET DATE EVENTS

At the end of the year, the Softing Group acquired an equity interest of less than 10% in a start-up company in the Automotive segment. This results in a premium payment of EUR 1.5 million at the beginning of the year.

REPORT ON OPPORTUNITIES, RISKS AND FORECASTS

REPORT ON OPPORTUNITIES

The information provided applies to the Softing Group and to Softing AG in equal measure. The opportunities and risks arise in the individual subsidiaries of Softing AG. Due to the profit and loss transfer agreements in place and the investment income generated, these also have a direct effect on the single-entity financial statements of Softing AG, possibly with a time lag compared with IFRS accounting.

Softing Industrial Automation GmbH

The Company offers an exceptionally broad portfolio of products to match any solution scenario in industrial communications. This creates a wide range of business opportunities across the full spectrum of potential brownfield/greenfield solution scenarios, and supports the use of these competencies and expertise in all areas of general-purpose industrial automation engineering. For many years now, change has been a constant factor for the familiar IT pyramid in manufacturing. To date, the interactive networking of data points has been successfully tackled with layers of heterogeneous technologies. In turn, however, this has also steadily driven up integration costs and gradually increased complexity. This is an area where SIA is already superbly qualified to utilize suitable technologies to significantly improve general customer benefits as well as deploy new architectural elements to minimize complexity for customers and solution users.

As IT and IIoT components merge into synergistic integrations from the cloud to the embedded firmware in automation systems, this drives a steadily growing convergence of technological fields that were historically largely independent of one another. SIA is perfectly positioned here to convert these convergence trends into opportunities and market success. Reliable studies from many prestigious sources have also published credible reports describing a considerable rise in networked industrial communication nodes and communication subscribers. This is a situation that notably improves SIA's business opportunities, translating into far higher demand in the form of high-quality customer consulting and a rise in marketable communication products. Generally speaking, SIA is in an excellent position to help customers in any market segment increase value and enjoy greater business success by digitalizing their operations.

Softing IT Networks GmbH, Softing Singapore Pte. Ltd.

The continued expansion of the Softing IT Networks portfolio with proprietary products, the launch of market innovations, and work in international standards bodies cements the Softing brand as a leading manufacturer of measuring technology while raising the Company's profile. In the certifier segment, another competitor product for the WireXpert range – and a serious challenger in Europe in particular – was launched on the market in 2019. During 2019 and 2020, a series of new developments here will prove decisive in ensuring the Company remains competitive as a trend setter and technology leader in the certifier segment. In qualifiers, Softing achieved notable successes with the launch of its innovative NetXpert AG in 2019; sales activities will be further expanded here in 2020. In the USA, Softing Inc. will use 2020 to build and expand on the excellent successes it has achieved over the last few years. The team at Softing Electronic Science & Technology (Shanghai) Co., Ltd. was also successful in establishing a position in the Chinese market in 2019. The main focus of the European team over the last few years has been on the DACH markets, France, and Italy/ Spain. Further potential for expanding sales operations exists outside these markets. In the coming years, new Industrial Ethernet technologies (Single-Pair Ethernet, SPE) will open up entirely new fields of application and markets for measuring instruments.

Online Development Inc.

OLDI is a leading Original Design Manufacturer (ODM) that supports many brand manufacturers and market segments in manufacturing with its broad-based portfolio of hardware/software products. Customers make good use of OLDI's extensive competencies in communications and IT to accelerate the time-to-market for new and existing technologies. Leveraging its know-how and experience in the security and scalability of IT systems, OLDI will continue to expand its business to new customers, projects, and products.

Softing Automotive Electronics GmbH

In the field of diagnostics software, the new product generation and current roadmap for planning offer good to very good chances of acquiring additional strategic customers. In particular, the modular and standards-based approach pursued by Softing is a key decision-making criterion for many customers around the world. The integration of Softing's middleware components with high-performance onboard controllers represents a new segment of great strategic importance. Some initial proof-of-concept projects were initiated in 2019 and will start in 2020. SAE expects these to deliver key technological trends for the further improvement of its toolchains. Accordingly, business development and sales activities will focus in particular on promoting these new software products with the aim of creating opportunities both with the customer base and with new strategic prospects. The overall aim here is a further broadening of the customer structure. The software portfolio is supplemented by the hardware, which is also attractive for premium customers in the fields of manufacturing, after sales, and service. In the VCI product segment in particular, Softing will make every effort to bid in global invitations to tender to generate a lead customer pipeline.

GlobalmatiX

The TÜV Nord quality mark awarded to Connected Car2CloudTM (for security) and the Connected Car solution enabled GlobalmatiX to acquire additional automotive manufacturers. initial field tests have started or have already been successfully completed. Initial orders have now been received in Europe and the US. As one example, a metropolitan bus fleet in Bavaria has now deployed the xTCU box from GlobalmatiX to achieve a predictive asset monitoring system using intelligent analysis.

SoftingROM s.r.l.

Softing continually develops new products and technologies in order to address the transition to new technologies, as well as to tap new markets and opportunities for growth. The Romanian subsidiary SoftingROM has the task of boosting the required development services. Cluj in Romania is an ideal location for Softing since it can be reached relatively quickly and inexpensively from Munich. There are also many well-educated engineers and computer scientists in the region.

RISK REPORT

The information provided applies to the Softing Group and to Softing AG in equal measure. The risks arise in the individual subsidiaries of Softing AG. Due to the profit and loss transfer agreements in place and the investment income generated, these also have a direct effect on the single-entity financial statements of Softing AG, possibly with a time lag compared with IFRS accounting. The risks presented affect all segments.

Softing is an internationally operating company involved in industrial automation technology, automotive electronics and network communication. The Company is exposed to a number of risks that are inextricably linked to its entrepreneurial activities.

In particular, this concerns risks resulting from market development, the positioning of products and services, contractual and non-contractual liability, and business processes. The Group's business policy is to best exploit existing business opportunities. It is the task of risk policy to carefully weigh the risks associated with this. Risk management is therefore an integral component of all business processes and company decisions. The risk management system of the Softing Group and of Softing AG comprises both risks and opportunities in equal measure.

Risk principles are defined by the Executive Board. They include statements on risk strategy, the willingness to take risks and the scope of these principles.

Risk analysis entails assessing identified risks in terms of the probability of their occurring (quantitative dimension) and the potential loss (dimension of intensity). Risk assessment is subject to practical limits, however – especially in the area of operating risks – because the number of potential risks is high but, more often than not, the available risk data is incomplete. As a result, subjective risk assessments must be made in many areas exposed to risk because the expenditure for risk management should be reasonable.

To be able to assess the risks, they have been divided into several categories. Multiplying the probability of occurrence by the extent of loss gives rise to the following levels of risk:

a. Minor risks (relative risk impact of up to 25%) are insignificant for the Company and no action needs to be taken to mitigate the risk. The relative risk impact is the ratio of loss amount multiplied by the probability of risk occurrence to the planned EBIT of a Group company.

b. Moderate risks (relative risk impact of up to 50%) have a limited extent of loss and a moderate probability of occurrence. There is no immediate need for action. Efficient, effective measures are sufficient to reduce moderate risks or to manage them rapidly in the event of an emergency.

c. Major risks (relative risk impact of more than 50%) cause greater loss and/or have a higher probability of occurrence than moderate risks. These risks should be reduced through appropriate controls or process optimization. Where possible, appropriate measures should be taken to reduce the major gross risk to the moderate or minor level of risk.

d. Going-concern risks (relative risk impact of more than 75%) could jeopardize the continued existence of an organizational unit or the Softing Group as a whole. Measures must be taken immediately to reduce the gross risk.

The risks are stated as gross risks before risk mitigation measures.

The Group uses a number of control systems to monitor and control its risks. These include a centralized company planning process, among other things. Softing regularly monitor the achievement of its business goals and the risks that are connected to this.

The risks involved in individual business processes were periodically recorded, analyzed and evaluated in the reporting period. The Group also assessed whether individual risks which are of minor importance when viewed in isolation could develop into a risk threatening the Company's existence when combined.

The risk factors mentioned below could have a strong negative impact on the Company's business performance, cash flows and profit or loss. Risks that are believed to be of little relevance to the Group's business at this time are not mentioned.

External Risks

The constant expansion of business with customers in the United States and other dollar countries has increased the significance of assessing currency risks. Every year, Softing checks if the currency risks in connection with the ongoing business with its subsidiaries in the United States and Singapore should be hedged. If it appears necessary, Softing uses conventional forward exchange deals as hedges. Overall, this risk is classified as a moderate risk.

Over the past few years, the Company has reviewed its dependency on the British market in view of Brexit. The following risk positions have been determined and risk reduction measures implemented: One Group company obtains goods for resale from the British market with an approx. value of EUR 4.5 million. As in the past, this purchasing is subject to a currency risk. Hedges will be implemented in case of strong prospective exchange-rate fluctuations away from the target level. On the other hand, in case of a breakdown in negotiations seeking to achieve an orderly Brexit, not insignificant tariff barriers must be expected. The Company is dealing with this risk by means of alternative suppliers from the European Union and Asia.

Various Group companies in the European Union supply products to the British market: in 2018, approx. EUR 1.0 million, with consolidated revenue of EUR 83.9 million (1.2% of consolidated revenue), and in 2019 approx. EUR 2.0 million, with consolidated revenue of EUR 91.1 million (2.2% of consolidated revenue). These deliveries are not exposed to any currency risk, since they are billed in euros. The customs risk in case of a breakdown in the Brexit negotiations continues to apply, but can be compensated for by means of a partial increase in sales prices.

Overall, the risk of a disorderly Brexit for the Group's business activities is fairly low, particularly since risk reduction measures have already been implemented.

The Group's management ensures that it is familiar at all times with any changes in customs regulations and is able to implement measures at short notice in case of any changes.

The "coronavirus" issue may affect Softing AG and the Softing Group in the hardware products segment, e.g. due to supply bottlenecks for electronics components and accessories from the severely affected Asian countries. This would temporarily result in delays in production and thus in revenue realization. However, we envisage a recovery over the course of the year, analogously to the similar situation affecting the supply of microchips in 2018. In the software products segment, there is no such risk of supply bottlenecks, since programming is done by the Group's own employees at its locations.

As risk mitigation measures to protect the health of the Group's employees, in addition to the advice published in the media disinfectant dispensers have been installed at building entrances, while washrooms and kitchens have been provided with virucide hand wash lotions. Employees in key positions are being provided with laptops and VPN access so that they will be able to continue to work from home in the event of them being quarantined. Wherever possible, business trips to particularly badly affected areas are being replaced by web and video conferences, while attendance at trade fairs and similar events is being critically reviewed.

Performance Risks
In 2019, revenue increased by 8.6% compared to 2018. There is always a general risk both of underutilization of capacities and sustaining pressure on realizable revenues. Softing addresses these risks with stricter cost management measures and flexible working hour models so that it can quickly adapt to any changes in demand. Overall, this risk is classified as a large risk.

The situation on the market is characterized by a rapid change of the employed technologies. This means that there is a danger that acquired know-how may prematurely lose value due to an unexpected market development. Softing address this risk by actively participating in a large number of national and international working groups, which enables it to recognize technological trends early on and help actively shape them. Overall, this risk is classified as a large risk.

In certain areas of the Group's business, both in the Industrial and the Automotive segment, Softing is involved in the complex development projects of customers. These projects entail a certain realization risk regarding the planned budgets and time frames. Any deviations could lead to a deterioration of profit and claims for damages. Softing addresses with this risk by planning such projects in accordance with a process model defined by its quality management system, and by carefully monitoring project progress with an alarm controlling system. The Group makes continual investments to further improve its already high quality standard. Overall, this risk is classified as a moderate risk.

When manufacturing products – particularly hardware products – the Group makes considerable use of supplies from external companies. The inclusion of third parties in its own value chain naturally reduces the level of influence Softing has on quality, costs and adherence to schedules. Unexpected price increases can affect the result considerably. Softing counteracts this risk through long-term supplier contracts wherever possible. Supplier failures can lead to delivery bottlenecks. Softing reduces the risk by regularly auditing its suppliers and consistently limiting the share of deliveries from individual suppliers. Overall, this risk is classified as a moderate risk.

The Group's products and services are used in the production of industrial goods. Downtime or malfunction can result in significant damage to persons and property. Softing reduces this risk by following a careful development process which is tailored to the specific scope of application. Significant residual risks are covered through insurance policies. Overall, this risk is classified as a moderate risk.

Financial Risks
Credit risks have not played a significant role in the past. The Group's restrictive credit management process allows it to identify imminent insolvencies faster and thus to counteract them in due time. Together, all of these measures again helped to forestall major defaults on receivables in 2019. Overall, this risk is classified as a minor risk.

Other Risks
As in all companies, the smooth functioning of business processes depends on the availability of the IT infrastructure. Attacks from the Internet, as well as other IT failures or damage to the IT infrastructure, pose a serious threat to the Company's ability to function. Softing implemented IT security measures which so far prevented damage caused by computer viruses and sabotage. This is why the Group believes that the probability of a threat to the security of its data inventories or information

systems is manageable. Overall, this risk is classified as a moderate risk.

The financial success of the Softing Group is rooted to a large extent in the skills and qualifications of its employees. For this reason, all employees are trained on an ongoing basis to ensure that the quality of their performance corresponds to the requirements of customers.

There is keen competition for highly qualified professionals and executives in the labor market at this time. Qualified staff are a material prerequisite for boosting the Company's shareholder value. Hence Softing always seeks to recruit new, very well trained personnel; integrate them as best as possible; promote them and establish a long-term collaboration with them. In addition to attractive employment conditions, Softing also offers its staff targeted training and continued education. But there is the potential risk that suitable professionals or executives cannot be recruited in the market in due time, and that this might have a negative effect on the Company's results of operations, financial position and net assets. Overall, this risk is classified as a large risk.

Even though not a single compliance case has so far arisen at Softing, the Executive Board and the legal department continue to take the issue of compliance very seriously. Through workshop participation and a series of presentations, the Group ensures that current trends and issues are taken on board and adapted to the situation at Softing. Overall, this risk is classified as a small risk.

In management's view, there are no acute risks that would jeopardize the Company's existence as a going concern or negatively impact its development.

Based on the risk policy and the current assessment of the risks, the risk exposure of both the Group and Softing AG is regarded as manageable. On account of the strong financial position and net assets, and improving results of operations in 2019, the Executive Board believes that the Group will be able to bear the residual risks not covered by insurance even in the event of unfavorable developments.

REPORT ON EXPECTED DEVELOPMENTS

Upturn Expected in 2021 at the Earliest

The downturn in the German economy is slowing, but a clear recovery is expected in 2021 at the earliest. In their latest forecast, the economic researchers at the Institute for the Global Economy (IfW) in Kiel, Germany, expect gross domestic product growth of 1.1% in 2020 and 1.5% in 2021. They have thus slightly upwardly adjusted their expectations by 0.1 percentage points in each of these years. Due to the large number of working days, the growth rate in 2020 is exaggerated by 0.4 percentage points. In 2021, the government's budgetary balance will likely be negative again for the first time.

The economic downturn in Germany is being driven by the recession in industry. It has now fallen below the normal level of capacity utilization, and this is also affecting business support services. The downward trend is weakening, and a slight upswing is already apparent for foreign business. However, past experience shows that it takes roughly five quarters on average before industry has overcome a recession and the rate of capacity utilization noticeably picks up. This can be expected in the second half of 2020 at the earliest.

The world economy is likely to gradually get back on track, and in the emerging markets the outlook is already improving slightly. Global output growth on the basis of purchasing power parities is likely to amount to 3.1% in 2020 and to 3.4% in 2021. A less favorable economic trend may arise in case of a further deterioration in the international trade environment with an additional adverse impact on the investment climate, such as in case of a worsening crisis at the WTO. *(Source: IfW, Economic Forecast, December 12, 2019)*

Industrial Segment

The slowdown of the world economy identified in 2019 will have effects in 2020 as well. Nonetheless, the Company can expect slight but solid growth. A supportive factor in 2020 is the fact that the market trend outlined and described in the above-mentioned fields of industrial digital communication will have a positive impact on the Company's business performance over the course of the year.

Automotive Segment

Despite the increased cost pressure in the automotive industry, the need for Softing's products and services will remain. Some customers are seeking to extend product cycles for tools and devices on cost grounds, but this is only possible to a limited extent due to pronounced and rapidly unfolding technological change. On functional and technological grounds alone, it is necessary to migrate to new tools and devices. Particularly in relation to the diagnosis and maintenance of vehicles, over the next few years a large number of new technologies and approaches will arrive on the scene, so SAE is strongly positioned with its product portfolio. In this situation, many customers will even increasingly and systematically seek out "buy" options. In particular, this reflects the need for mastered technology which is proven in the market as well as the time-to-market. This will provide further future opportunities for SAE, and we thus envisage further growth in the medium and long term.

GlobalmatiX

GlobalmatiX operates in the Connected Car and Internet of Things (IoT) segment, which is currently the highest-growth market with disruptive technology. As a pioneer in remote diagnostics using CAN data, we address fleet customers via automakers, their suppliers and companies in the service, transportation, leasing and insurance fields. Delivering our telematics solution to these fleets is our central sales activity. Moreover, our solution transforms diagnostics into remote diagnostics and uses Big Data analytics to enable foreseeable and predictive maintenance like that already possible in the aerospace industry. Thanks to our access to 4G and 5G mobile telecommunications technology as a mobile network operator in Softing's core markets in North America, Europe and Asia, we are well-prepared for acting as a disruptor and building the Softing Group's digital business.

IT Networks Segment

The changed competition situation in the certifier segment will make itself felt in Europe in particular in 2020, until Softing is able to present a successor to its WireXpert series. It will partly be possible to compensate for this effect by means of sales measures. The North America and Asia markets are expected to be less affected by this competition situation, since this competitor is significantly weaker in these regions. In its qualifier and verifier segments, Softing will further consolidate its position as a technology leader by continuing to expand its NetXpert series as well as introducing new products. New technologies such as SPE will be visible as a technology trend in 2020, but will only provide a substantial business contribution in subsequent years.

Outlook for the 2020 Financial Year for Softing AG

It is the clear objective of Softing AG to systematically strengthen its own activities and expand its worldwide presence through targeted partnerships.

Thanks to a combination of its modern product portfolio, close proximity to customers and good financial reserves, Softing is in a better position than many competitors and thus will be able to benefit from opportunities in the market in the near term.

The Company's future development hinges largely on the continued positive development of the global economy. This is why the Company's actual performance might deviate from the Executive Board's expectations.

Based on projected earnings, Softing AG is forecasting income from profit and loss transfer agreements of EUR 1.3 million to EUR 1.6 million for the 2020 financial year

Outlook for the 2020 Financial Year for the Softing Group

The declared goal remains to further boost the operational excellence of the Group by optimizing market penetration to ensure regional balance in line with our focus. Softing is firmly committed to continuing the pursuit of this goal in 2020. Based on the Softing Group's positioning and customer feedback, Softing sees opportunities to increase incoming orders, revenue and earnings in 2020. Softing will again face numerous unavoidable uncertainties in 2020 regarding economic developments in Europe as well as in Asia and North America. Softing would not be able to avoid the impact of downturns in the demand markets. These external risks have significantly reduced forecasts.

As a leading technology group, Softing must and will work to actively shape technical change. The speed of change continues to increase substantially in all segments. For this reason, Softing plans to use the expertise that its current portfolio and acquisitions provide for the extensive development of new products and the extensive refinement of existing ones in 2020. For 2020, Softing is generally assuming that capitalization of development costs will remain largely stable due to increased investment in new products. Investment in some product lines will decline due to completions, while new technologies and products will receive a kick-start. We also have opportunities for above-average returns in the existing business, for instance in the process and manufacturing industries, which Softing consolidates in the Industrial segment. Strong growth in our own products in the IT Networks segment is expected to continue thanks to new products. In the Automotive segment, the key factor is landing new projects from major customers, even though these will only have a minimal influence on revenue in the current year. Excess inventories remain as a result of the aforementioned economic risks and political uncertainties.

Overall, the Group expects a moderate increase in revenue and incoming orders. Given the current global uncertainties, we cautiously anticipate EBIT and operating EBIT to repeat the previous year's performance. At segment level, an increase in revenue and stable or slightly increasing EBIT and operating EBIT are projected in all segments. Due to the good order situation from 2019 and the fact that a number of contracts have already been acquired but cannot be delivered until the second half of the year, we expect the biggest positives, especially for EBIT, to be seen in the second half of the year, as was the case in the previous year. We will provide quarterly reports with more details on these figures.

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM RELEVANT FOR THE CONSOLIDATED FINANCIAL REPORTING PROCESS

Definitions and Elements of the Softing Group's Internal Control and Risk Management System

The Softing Group's internal control system comprises all principles, procedures and actions required for ensuring the effectiveness, economy and propriety of the Company's financial reporting as well as compliance with material legal requirements.

The internal control system of the Softing Group comprises an internal management and monitoring system.

Monitoring mechanisms that are process-integrated or uninvolved in business processes constitute the elements of the Softing Group's internal monitoring system. Hence automated IT process controls besides manual process controls – such as the two-person integrity (TPI) principle – are an integral part of all process-integrated activities.

As part of the internal control system, those aspects of the risk management system that concern financial reporting are focused on the risk of misstatements in the Group's bookkeeping as well as its external reporting system. Besides risk management at the operating level – which also includes risk transfer to insurance companies through insurance policies serving to limit the risk of loss or liability as well as through suitable hedging transactions serving to limit foreign currency risks – the Softing Group's risk management system also comprises early detection as well as management and monitoring of risks, systematically and groupwide. The Softing Group has established a monitoring system pursuant to Section 91 (2) German Stock Corporation Act that is aimed at early detection of risks that might jeopardize the Company's existence in order to ensure systematic early detection of risk throughout the Group. For additional disclosures on the risk management system, please see the section entitled, "Risk Report."

As part of the risk reporting system, the Executive Board is regularly informed about risks. Risks are identified at an early stage and assessed. Risks are reported across all companies, with the risks recorded being listed and evaluated. The Executive Board is responsible for defining appropriate risk management measures. Significant individual risks are recorded independently of the regular cycle and reported without delay.

Use of IT Systems

Accounting transactions are recorded in the single-entity financial statements of the German companies' subsidiaries using IFS's bookkeeping system. Our foreign subsidiaries utilize local providers of bookkeeping systems. All subsidiaries supplement their separate financial statements by additional information using standardized reporting packages that are entered into Softing AG's consolidation system in connection with the preparation of the Group's consolidated financial statements. The system from software manufacturer Lucanet is used as the consolidation system. All consolidation processes required to prepare the consolidated financial statements of Softing AG – e.g. acquisition accounting, asset and liability accounting, or elimination of expenses and earnings – are generated and documented in the consolidation system.

Specific Risks Related to the Financial Reporting Process

Specific risks related to the Group's financial reporting process may arise from unusual or complex transactions that could be treated erroneously in the accounting systems. Transactions that are not routinely processed also entail inherent risks. Additional risks related to the financial reporting process arise from the latitude that employees must be given in regards to the recognition and measurement of assets and liabilities.

Material Control and Monitoring Activities Aimed at Assuring the Propriety and Reliability of the Financial Reporting Process

All facets of the internal control system that serve to provide a proper and reliable financial reporting process ensure complete and timely recording of all transactions in compliance with all requirements under the law and the Company's Articles of Incorporation. It also assures that inventories are taken in proper fashion and that both assets and liabilities are accurately recognized, measured and shown in the consolidated financial statements. These control activities also serve to ensure that the bookkeeping records provide reliable and plausible information. If errors occur and are identified despite these activities, these are corrected without delay.

The monitoring activities serving to ensure that the financial reporting is proper and reliable also comprise the analysis of transactions and developments using specific analyses of key indicators. The separation of functions related to administration, execution, accounting and approval – as well as their perception as such by a variety of individuals – limits the possibilities for engaging in intentional acts. For example, this also ensures that bookkeeping processes are carried out both in the proper period and in full even if the IT systems that the Group companies use for the underlying accounting are changed.

The internal control system also serves to make sure that changes in the Softing Group's economic or legal environment are duly presented and that new or amended statutory requirements concerning the financial reporting process are applied.

The International Financial Reporting Standards (IFRS) represent the uniform accounting policies applied by the domestic and foreign entities included in Softing's consolidated financial statements. Besides general accounting policies, in particular, this concerns requirements related to the statement of financial position, the income statement, the notes, the management report, the statement of cash flows, the statement of comprehensive income, the statement of changes in equity and segment reporting, taking requirements under EU law into account.

Softing's accounting standards also govern concrete formal requirements that the consolidated financial statements must fulfill. They not only determine which companies to include in consolidation, they also fix the components of the reporting packages that the Group companies must prepare in detail. Among other things, these formal requirements serve to ensure the binding utilization of a standardized and complete set of forms. Softing's accounting standards also contain specific requirements regarding the treatment and settlement of intra-group transactions and the reconciliation of accounts based thereon.

At the Group level, the specific elements of control designed to ensure the propriety and reliability of Group accounting principles comprise analyses and possibly revisions of Group companies' separate financial statements. The centralized execution of impairment tests for the cash generating units from the Group's perspective assures that uniform and standardized measurement criteria are applied. Furthermore, additional data are processed and aggregated at the Group level in regards to external information in both the notes and the management report, including information related to events after the reporting period.

Caveats

The internal control and risk management system makes it possible to record, process and measure all transactions pertaining to the Group as well as their appropriate presentation through the financial reporting process thanks to the Softing Group's organizational, control and monitoring structures.

However, personal discretion, defective controls, criminal acts or other circumstances cannot be precluded by the very nature of the matter at hand and, as a result, may limit the effectiveness and reliability of the internal control and risk management system such that even groupwide application of the systems utilized cannot guarantee with absolute certainty complete, accurate and timely recording of transactions as part of the financial reporting process.

DISCLOSURES IN ACCORDANCE WITH SECTION 289A HGB AND EXPLANATORY REPORT

1. In 2019, the share capital of Softing AG was EUR 9,105,381 denominated in the same number of no-par shares, all granting the same rights, specifically voting rights. No shareholder or shareholder group has special rights.

2. Shareholders' voting rights are not restricted by law or the Company's Articles of Incorporation. The voting rights are not limited to a specific number of shares or votes. The Executive Board is not aware of any limitations regarding the voting rights.

   The shareholders of Softing AG are not limited by law or the Company's Articles of Incorporation in their decision to purchase or sell shares. To be effective, the purchase or sale of shares does not require the approval of the Company's boards. The Executive Board is not aware of any limitations regarding the assignability of shares.

3. We have been notified of the following direct or indirect equity interests that exceed 10% of the voting rights:

   Helm Trust Company Limited, St. Helier, Jersey, Channel Islands, notified us in accordance with Section 33 (1) German Securities Trading Act that its voting share in our company fell below the threshold of 25% on March 28, 2018, and was 22.43% on that date (2,042,302 voting shares).

   Of this amount, 22.43% (2,042,302 voting shares) must be attributed to it in accordance with Section 34 (1) sentence 1 no. 1.

   Attributed voting shares are held by the following entities it controls and whose interest in the voting shares of Softing AG is 3% or more in each case:

   - Trier Familienstiftung
   - Trier Asset Management GmbH
   - Trier Vermögensverwaltung GmbH & Co. KG

   Mr. Alois Widmann, Vaduz/Liechtenstein, notified us in accordance with Section 33 (1) German Securities Trading Act that his voting share in our company exceeded the threshold of 15% on March 28, 2018, and was 15.92% on that date (1,450,000 voting shares).

   Of this amount, 15.92% (1,450,000 voting shares) must be attributed to Mr. Widmann in accordance with Section 34 (1) sentence 1 no. 1.

4. The Company has not issued any shares with special rights conferring powers of control.

5. No employees may directly exercise their control rights in connection with their equity interests.

6. In accordance with § 7 of the Articles of Incorporation of Softing AG, the Executive Board of Softing AG comprises one or more persons. Even if the Company's share capital exceeds EUR 3,000,000, the Executive Board may comprise just one person. Deputy members of the Executive Board may be appointed. The Supervisory Board appoints the members of the Executive Board and determines the number of persons serving on the Executive Board. The Supervisory Board may appoint a chairman of the Executive Board and a deputy chairman of the Executive Board.

The Supervisory Board is authorized to make amendments to the Articles of Incorporation insofar as they concern only the wording thereof. More comprehensive amendments to the Articles of Incorporation are subject to the requirements of Sections 133 and 179 German Stock Corporation Act.

An average of 9,105,381 shares were outstanding in the reporting year.

In May 2018, the General Shareholders' Meeting authorized the Executive Board of Softing AG to increase the Company's share capital with the approval of the Supervisory Board by a total of EUR 4,552,690 on one or several occasions up to May 8, 2023 by issuing new no-par bearer shares against contributions in cash and/or in kind (Authorized Capital 2018). The existing authorized capital (Authorized Capital 2015) was cancelled based on a resolution adopted by the General Shareholders' Meeting on May 9, 2018.

As of the balance sheet date, the fully paid-in share capital of the Company was EUR 9,105,381 (previous year: EUR 9,105,381 thousand). It is divided into 9,105,381 (previous year: 9,105,381) no-par-value bearer shares with a notional value of EUR 1 each. An average of 9,105,381 shares were outstanding in the reporting year.

Authorized Capital 2018 as of December 31, 2019, was EUR 4,552,690.

7. The Executive Board is authorized to contingently increase the Company's share capital with the approval of the Supervisory Board by up to EUR 4,552,690.00 by issuing up to 4,552,690 new no-par bearer shares (Contingent Capital 2018). The contingent capital increase will serve the granting of option rights or obligations to the holders of warrants arising from bonds with warrants under the terms of the respective options or the granting of conversion rights or obligations to the holders of convertible bonds under the terms of the respective convertible bonds issued by the Company up to May 8, 2023 in accordance with the resolution of the General Shareholders' Meeting on May 9, 2018. The new shares will be issued at the respective option or conversion price to be determined in accordance with the above-mentioned authorization resolution. The contingent capital increase will be implemented only in the event that bonds with warrants or convertible bonds are issued and only to the extent that the holders of the bonds with warrants or the convertible bonds make use of their option or conversion right or the holders of bonds obligated to convert or to exercise the option fulfill this obligation and the contingent capital is needed in accordance with the terms and conditions of the bond with warrants or the convertible bond. The new shares issued on the basis of the exercise of the option or conversion right or the fulfillment of the conversion or option obligation have a share in the profit from the beginning of the financial year in which they arise. The Executive Board is authorized, with the approval of the Supervisory Board, to stipulate the further details of the implementation of the contingent capital increase. Said authority was not exercised to date. The existing contingent capital (Contingent Capital 2013) was cancelled based on a resolution adopted by the General Shareholders' Meeting on May 9, 2018.

8. On May 4, 2016, the General Shareholders' Meeting authorized the Executive Board to purchase own shares until May 3, 2021, provided that such purchase is not made for the purpose of trading in treasury shares,

and provided that the purchase price of said shares is not more than 10% above or below the share's average closing price at the Frankfurt Stock Exchange during the last ten days preceding the purchase (share repurchase). The closing price shall be determined as the share's closing auction price in electronic trading on the Frankfurt Stock Exchange (XETRA trading) or a system succeeding XETRA trading. The authorization may be exercised once or several times, in whole or in part. It is limited to purchasing shares representing no more than a total of 10% of the Company's share capital. Any treasury shares acquired under this authorization – together with other treasury shares that the Company has already acquired and still holds – may not exceed 10% of the Company's share capital.

9. The repurchase serves to create an acquisition currency that is required in the medium term and that is available at a price which the Company believes to be considerably below fair value. The Company held no treasury shares as of December 31, 2019.

10. There are no material agreements entered into by the parent company that provide for a change of control following a takeover bid.

11. An agreement with one member of the Executive Board gives him the right to terminate his employment for cause if at least one outside shareholder or one shareholder group acting in concert reaches 1.4 million voting shares through possession or attribution. If this Executive Board member exercises this right to terminate his employment for cause, he is entitled to compensation equaling approximately two annual salaries.

BASIC INFORMATION ON THE REMUNERATION SYSTEMS FOR MEMBERS OF CORPORATE BODIES

Remuneration of the Executive Board is divided into a fixed salary component and a performance-based, i.e. variable component. The performance-based components are contingent on consolidated profit. Likewise, the performance of Softing's shares is key to the variable component of executive remuneration as well. Members of Softing AG's Executive Board are also entitled to a company car agreement. There is no stock option plan in place. For more details regarding the Executive Board's remuneration, please see the notes to the consolidated financial statements.

Pension provisions for former members and one current member of the Executive Board were recognized as of December 31, 2019. For details, please see the disclosures on pension provisions in the notes.

The director's contracts of the Executive Board members run until 2021 and 2023, respectively.

Each member of the Supervisory Board receives a fixed remuneration of EUR 10,000 for each full financial year of service on the Supervisory Board. In addition, they also receive a variable remuneration Equaling 0.5% of consolidated EBIT before taking into account the Supervisory Board's variable remuneration. The chairman receives 200% of the fixed and variable amount, the deputy chairman 150%. The remuneration for the entire Supervisory Board is limited to a total of EUR 200,000 per financial year.

STATEMENT ON CORPORATE GOVERNANCE

The Executive Board of Softing AG reports on issues of corporate governance in this statement – also on behalf of the Supervisory Board – pursuant to both Section 3.10 of the German Corporate Governance Code and Sections 289f (1) and 315d of the German Commercial Code (HGB). The statement applies both to Softing AG as the parent and to the Softing Group in equal measure. For the contents of the statement, please see this link on our website at www.softing.com: http://investor.softing.com/en/corporate-governance/erklaerung-289-a-hgb

RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements and the annual financial statements of Softing AG give a true and fair view of the assets, liabilities, financial position and profit or loss of the Softing Group and of Softing AG, and the combined management report includes a fair review of the development and performance of the business and the position of the Softing Group and of Softing AG, together with a description of the material opportunities and risks associated with the expected development of the Softing Group and of Softing AG."

Haar, Germany, March 18, 2020
Softing AG

The Executive Board

Dr. Wolfgang Trier　　　Ernst Homolka

Consolidated Income Statement

for the period from January 1 to December 31, 2019

	Note	Jan. 1 – Dec. 31, 2019 EUR (in thsds.)	Jan. 1 – Dec. 31, 2018 EUR (in thsds.)
Revenue	**D1**	**91,068**	**83,890**
Other own work capitalized	D2	5,526	4,425
Other operating income	D3	755	1,443
Operating income		**97,349**	**89,758**
Cost of materials/cost of purchased services	D4	–39,311	–36,471
Staff costs	D5	–35,441	–33,440
Depreciation and amortization of property, plant and equipment, right-of-use assets and intangible assets	D6	–7,820	–4,938
thereof depreciation/amortization due to purchase price allocation		–2,034	–1,769
thereof depreciation due to accounting for right-of-use-assets		–1,416	–
Other operating expenses	D7	–10,474	–10,829
Operating expenses		**–93,046**	**–85,678**
Operating result (EBIT)		**4,303**	**4,080**
Interest income	D8	57	70
Interest expense	D8	–273	–230
Interest expense from lease accounting		–163	
Other finance income/finance costs	D8	322	689
Earnings before income taxes		**4,246**	**4,609**
Income taxes	D9	–1,317	–1,277
Consolidated profit		**2,929**	**3,332**
Consolidated profit attributable to:			
Shareholders of Softing AG		2,809	3,347
Non-controlling interests		120	–15
Consolidated profit		**2,929**	**3,332**
Earnings per share (diluted = basic)		0.31	0.38
Average number of shares outstanding (basic)		9,105,381	8,771,682

Consolidated Statement of Comprehensive Income

for the period from January 1 to December 31, 2019

	Note	Jan. 1 – Dec. 31, 2019 EUR (in thsds.)	Jan. 1 – Dec. 31, 2018 EUR (in thsds.)
Consolidated profit		**2,929**	**3,332**
Items that will not be reclassified to consolidated profit or loss			
Remeasurement of pensions		–994	32
Tax effect		279	–9
Total remeasurements of pensions		–715	23
Items that will be reclassified to consolidated profit or loss:			
Currency translation differences			
Changes in unrealized gains/losses		148	336
Tax effect		22	–82
Total currency translation differences		170	254
Other comprehensive income		**–545**	**277**
Total consolidated comprehensive income for the period		**2,384**	**3,609**
Total consolidated comprehensive income for the period attributable to:			
Shareholders of Softing AG		2,264	3,624
Non-controlling interests		120	–15
Total consolidated comprehensive income for the period		**2,384**	**3,609**

Consolidated Statement of Financial Position

as of December 31, 2019

Assets	Note	Dec. 31, 2019 EUR (in thsds.)	Dec. 31, 2018 EUR (in thsds.)
Non-current assets			
Goodwill	C1/C2	18,124	17,985
Other intangible assets	C3/C4	44,291	41,882
Equity investments	C1/C2	1,500	0
Property, plant and equipment	C5	5,949	2,348
Deferred tax assets	D9	787	765
Non-current assets, total		**70,651**	**62,980**
Current assets			
Inventories	C6	12,596	10,557
Trade receivables	C7	15,380	13,682
Contract assets	C8	533	568
Current income tax assets	C9	1,864	1,652
Cash and cash equivalents	C10	14,917	9,682
Current assets	C11	855	703
Current assets, total		**46,145**	**36,844**
Total assets		**116,796**	**99,824**

Equity and liabilities	Note	Dec. 31, 2019 EUR (in thsds.)	Dec. 31, 2018 EUR (in thsds.)
Equity			
Subscribed capital	C12	9,105	9,105
Capital reserves	C12	31,111	31,111
Retained earnings	C12	29,119	28,039
Equity attributable to shareholders of Softing AG		69,335	68,255
Non-controlling interests	C12	269	145
Equity, total		**69,604**	**68,400**
Non-current liabilities			
Pensions	C13	3,085	2,141
Long-term borrowings	C14	14,006	1,976
Other non-current financial liabilities	C14	2,259	57
Deferred tax liabilities	D 9	6,160	5,227
Non-current liabilities, total		**25,510**	**9,401**
Current liabilities			
Trade payables	C15	6,476	6,086
Contract liabilities	C8	2,641	2,069
Provisions	C16	101	175
Income tax liabilities	C17	1,255	1,407
Short-term borrowings	C18	1,581	6,215
Other current financial liabilities	C19	7,691	4,522
Current non-financial liabilities	C20	1,937	1,549
Current liabilities, total		**21,682**	**22,023**
Total equity and liabilities		**116,796**	**99,824**

Consolidated Statement of Changes in Equity

for the period from January 1 to December 31, 2019

	Subscribed capital	Capital reserves	Retained earnings				Equity attributable to share-holders of Softing AG	Non-controlling interests	Total equity
			Net retained profits and other	Remeasure-ments	Currency translation	Total			
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Balance as of January 01, 2019	**9,105**	**31,111**	**27,054**	**–1,298**	**2,282**	**28,039**	**68,255**	**145**	**68,400**
Consolidated profit 2019			2,809			2,809	2,809	120	2,929
Other comprehensive income 2019				–715	170	–545	–545		–545
of which from remeasurements				–994		–994	–994		–994
of which currency translation					148	148	148		148
of which tax effect				279	22	301	301		301
Total consolidated comprehensive income for the period			2,809	–715	170	2,264	2,264	120	2,384
Dividend payment			–1,184			–1,184	–1,184		–1,184
Changes in minority interests								4	4
Transactions with owners in their capacity as owners			**–1,184**			**–1,184**	**–1,184**	**4**	**–1,180**
Balance as of December 31, 2019	**9,105**	**31,111**	**28,679**	**–2,013**	**2,452**	**29,119**	**69,335**	**269**	**69,604**

	Subscribed capital	Capital reserves	Retained earnings				Equity attributable to sharehold-ers of Softing AG	Non-controlling interests	Total equity
			Net retained profits and other	Remeasure-ments	Currency translation	Total			
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Balance as of December 31, 2017	**7,655**	**19,214**	**24,728**	**–1,312**	**2,028**	**26,436**	**52,305**	**–33**	**52,272**
Change in accounting policies			–26			–26	–26		–26
Balance as of January 01, 2018	**7,655**	**19,214**	**24,702**	**–1,321**	**2,028**	**25,410**	**52,279**	**–33**	**52,246**
Consolidated profit 2018			3,347			3,347	3,347	–15	3,332
Other comprehensive income 2018				23	254	277	277	0	277
of which from remeasurements				32		32	32		32
of which currency translation					336	336	336		336
of which tax effect				–9	–82	–91	–91		–91
Total consolidated comprehensive income for the period			**3,347**	**23**	**254**	**3,624**	**3,624**	**–15**	**3,609**
Dividend payment			–995			–995	–995		–995
Capital increase	1,450	11,897				0	13,347		13,347
Deconsolidation effect						0	0	67	67
Capital increase, minorities						0	0	126	126
Transactions with owners in their capacity as owners	**1,450**	**11,897**	**–995**	**0**	**0**	**–995**	**12,352**	**193**	**12,545**
Balance as of December 31, 2018	**9,105**	**31,111**	**27,054**	**–1,298**	**2,282**	**28,039**	**68,255**	**145**	**68,400**

Consolidated Statement of Cash Flows

for the period from January 1 to December 31, 2019

	Jan. 1 – Dec. 31, 2019 EUR (in thsds.)	Jan. 1 – Dec. 31, 2018 EUR (in thsds.)
Cash flows from operating activities		
Profit (before tax)	**4,245**	**4,609**
Depreciation and amortization of fixed assets	7,820	4,937
Other non-cash transactions	194	74
Cash flows for the period	**12,259**	**9,620**
Interest income	–57	–70
Interest expense	436	231
Change in other provisions and accrued liabilities	–879	–6
Change in inventories	–2,039	–1,490
Change in trade receivables	–1,663	–1,424
Change in financial receivables and other assets	–386	–1,561
Change in trade payables	390	1,381
Change in financial and non-financial liabilities and other liabilities	2,713	2,442
Interest received	57	70
Income taxes received	352	741
Income taxes paid	–816	–506
Cash flow from operating activities	**10,367**	**9,428**
Cash payments for investments in non-current assets	–1,118	–1,357
Cash paid for investments in new internal/external product developments	–7,364	–6,365
Cash and cash equivalents acquired from the acquisition	0	6
Cash flow from investing activities	**–8,482**	**–7,716**
Cash paid for dividends	–1,184	–995
Repayment of lease liabilities	–1,554	0
Cash received from short-term bank line	0	1,500
Cash received from long-term loans	14,000	0
Cash repayment of bank loans	–7,547	–2,504
Interest from lease accounting	–163	0
Other interest paid	–180	–231
Total interest paid	–343	–231
Cash flow from financing activities	**3,372**	**–2,230**
Net change in cash funds	5,257	–517
Effects of exchange rate changes on cash funds	–22	–77
Cash funds at beginning of period	9,682	10,276
Cash funds at end of period	**14,917**	**9,682**

For further information, please see item E3 of the Notes.

Changes in Intangible Assets and Property, Plant and Equipment

In the 2019 financial year

	Cost						
	Jan. 1, 2019	First-time application of IFRS 16 lease accounting Jan. 01, 2019	Additions	Currency differences	Restatements	Disposals	Dec. 31, 2019
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets							
Goodwill	18,281			139			18,420
Internally generated intangible assets	27,041		3,275				30,316
Internally generated intangible assets under development	6,028		1,837		–871	–1	6,994
Other intangible assets	34,313		2,640	359	871	–8	38,175
	85,663		**7,752**	**498**		**–8**	**93,905**
Equity investments			1,500				1,500
			1,500				**1,500**
Property, plant and equipment							
Right-of-use-assets, operating and office equipment		56				2	54
Right-of-use assets, buildings		4,318	120	26	–121	12	4,331
Right-of-use assets, motor vehicles		321	141		–10	37	415
Other equipment, operating and office equipment	4,960		985	12		88	5,869
	4,960	**4,695**	**1,246**	**38**	**–131**	**139**	**10,669**
	90,623	**4,695**	**10,498**	**536**	**–131**	**147**	**106,074**

In the 2018 financial year

	Cost						
	Jan. 1, 2018	Acquisitions from business combinations	Additions	Currency differences	Restatements	Disposals	Dec. 31, 2018
	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Intangible assets							
Goodwill	14,836	3,117		328			18,281
Internally generated intangible assets	23,850		4,509			1,318	27,041
Internally generated intangible assets under development	5,044		1,117	21		154	6,028
Other intangible assets	20,301	12,313	896	865		62	34,313
	64,031	**15,430**	**6,522**	**1,214**		**1,534**	**85,663**
Property, plant and equipment							
Other equipment, operating and office equipment	4,136	25	1,200	37		438	4,960
	68,167	**15,455**	**7,722**	**1,251**		**1,972**	**90,623**

Accumulated depreciation and amortization					Carrying amounts	
Jan. 1, 2019	Currency differences	Depreciation and amortization in the financial year	Disposals	Dec. 31, 2019	Dec. 31, 2019	Dec. 31, 2018
EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
296				296	18,124	17,985
17,638		3,106		20,744	9,572	9,403
					6,994	6,028
7,862	100	2,488		10,450	27,725	26,451
25,796	**100**	**5,594**		**31,490**	**62,415**	**59,867**
					1,500	
					1,500	
		25	2	23	31	
	–2	1,186	11	1,173	3,158	
		205	37	168	247	
2,612		810	66	3,356	2,513	2,348
2,612	**–2**	**2,226**	**116**	**4,720**	**5,949**	**2,348**
28,408	**98**	**7,820**	**116**	**36,210**	**69,864**	**62,215**

Accumulated depreciation and amortization					Carrying amounts	
Jan. 1, 2019	Currency differences	Depreciation and amortization in the financial year	Disposals	Dec. 31, 2019	Dec. 31, 2019	Dec. 31, 2018
EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
296				296	17,985	14,540
16,369		2,107	838	17,638	9,403	7,480
					6,028	5,044
5,557	242	2,109	46	7,862	26,451	14,744
22,222	**242**	**4,216**	**884**	**25,796**	**59,867**	**41,808**
2,114	13	722	237	2,612	2,348	2,022
24,336	**255**	**4,938**	**1,121**	**28,408**	**62,215**	**43,830**

Notes to the Consolidated Financial Statements for the 2019 Financial Year

A. GENERAL INFORMATION

1. BASIS

The consolidated financial statements of Softing AG were prepared in accordance with all International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) that were applicable on the balance sheet date and all Interpretations of the IFRS Interpretations Committee (IFRS IC) that were binding for the financial year ended and applicable in the European Union in accordance with Regulation No. 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. The term IFRS also includes the applicable International Accounting Standards (IASs). Furthermore, the provisions applicable under German Commercial law as defined in Section 315e (1) German Commercial Code (HGB) were also taken into account.

The consolidated income statement is drawn up using the nature of expense format. The consolidated financial statements are structured in accordance with the provisions of IAS 1. The presentation in the consolidated statement of financial position differentiates between current and non-current assets. Assets are classified as current if they become due within one year. The consolidated statement of financial position also differentiates between current and non-current liabilities. Liabilities are classified as current if they become due within one year.

The reporting currency is the euro (EUR). All amounts are stated in thousands of euros (EUR thousand) unless indicated otherwise. These financial statements cover the 2019 financial year based on the reporting period from January 1 to December 31 of that same year. Due to rounding, it is possible that individual figures and percentages may not precisely add up to the totals shown.

The consolidated financial statements and the Group management report are published in the electronic Federal Gazette.

The Executive Board of Softing AG released the consolidated financial statements to the Supervisory Board on March 18, 2020. It is the task of the Supervisory Board to examine the consolidated financial statements and declare whether it approves them.

2. PURPOSE OF THE GROUP

Softing AG, headquartered in Haar near Munich, Germany, is the Group's parent company. Softing AG is a stock corporation under German law. It is registered at Munich Local Court with the address "Richard-Reitzner-Allee 6, 85540 Haar."

The purpose of Softing AG and its subsidiaries is to provide analysis, consulting, development and implementation services in the context of IT projects as well as business studies, expert opinions and training, especially in the areas of process automation and production data acquisition, system and user software for micro- and mini-computer systems, long-distance data transmission, computer networks and commercial IT applications. The results of these activities are incorporated into the products marketed by the Softing Group.

3. NEW AND REVISED STANDARDS

The Group applied the following new and revised standards and interpretations as at January 1, 2019:

IFRS 16 – Leases

On January 13, 2016, the IASB issued the final version of the new leasing standard, IFRS 16. IFRS 16 replaces the standards and interpretations IAS 17, IFRIC 4, SIC-15 and SIC-27. The new rules must also be applied to existing leases. The amendments relate to accounting for (nearly all) leases which must be recognized at the lessee according to the "right-of-use" approach. According to this model, the lessee recognizes an asset for the right to use the leased asset during the lease term, which is depreciated over the term of the lease and recognizes a corresponding liability for the present value of the future lease payments, which is amortized using the effective interest method. The previous distinction between finance and operating leases is no longer retained. Instead, with only a few exceptions, all material leases are now recognized in the statement of financial position of the lessee. Simplification options are provided for short-term lease agreements with a term of no more than 12 months and lease agreements covering low-value assets.

Due to the first-time application of IFRS 16, the Group recorded transition effects in the areas described below from January 1, 2019, which led to a change in accounting policy. Softing applied the modified retrospective approach in the transition to IFRS 16.

The following table shows the changes in the items of the financial statements from December 31, 2018 to January 1, 2019 due to the first-time application of IFRS 16.

	Jan. 1, 2019 EUR (in thsds.)	IFRS 16 effects EUR (in thsds.)	Dec. 31, 2018 EUR (in thsds.)
Assets			
Property, plant and equipment	7,043	4,695	2,348
Non-current assets	67,675	4,695	62,980
Current assets	36,844		36,844
Total assets	**104,519**	**4,695**	**99,824**
Equity and liabilities			
Equity	68,400		68,400
Other non-current financial liabilities	3,436	3,379	57
Non-current liabilities	12,780	3,379	9,401
Current financial liabilities	5,838	1,316	4,522
Current liabilities	23,339	1,316	22,023
Total equity and liabilities	**104,519**	**4,695**	**99,824**

The exercise of the option available to Softing AG as described below had no effect on equity as of January 1, 2019.

For contracts in force at the date of first-time adoption, the Group decided to apply the existing definition of a lease from IAS 17 and IFRIC 4 and not to apply IFRS 16 to arrangements that up to now have not been identified as a lease in accordance with IAS 17 and IFRIC 4.

As a consequence of the first-time application of IFRS 16, the Group recognized right-of-use lease assets in the amount of EUR 4,695 thousand and associated lease liabilities in the amount of EUR 4,695 thousand in the statement of financial position as of January 1, 2019 for leases previously classified as operating leases. There were no prepaid or accrued lease payments at the date of transition to the new standard. Here, the lease liability corresponds to the remaining lease payments discounted using the incremental borrowing rate at the date of transition to IFRS 16.

In this connection, the Group decided to base impairment testing of these right-of-use assets on its estimate of whether lease contracts were considered onerous contracts immediately before the date of first-time adoption of IFRS 16. As of December 31, 2018, no provisions had been recognized for onerous leases previously classified as operating leases.

When determining lease terms, the Group used the practical expedient for the option of determining the lease term retrospectively. Leases with a remaining term of twelve months or less were accounted for as current leases.

None of the Group’s leases were classified as finance leases.

The average weighted incremental borrowing rate at the date of transition used to discount the lease liabilities was 4.22%. This was determined based on normal market terms under country-specific and maturity-specific equivalent assumptions.

The table below shows a reconciliation of all obligations under operating leases as of December 31, 2018 to the lease liabilities recognized as of January 1, 2019:

	Jan. 1, 2019 EUR (in thsds.)
Lease obligations under operating leases disclosed as of December 31, 2018	**5,418**
Practical expedients for short-term leases	–3
Practical expedients for leases of low-value assets	–1
Payment obligations as of December 31, 2018 under agreements in which the leased asset is provided on or after January 1, 2019	0
Rent-related obligations (service components)	0
Adjustments due to different assessments of extension and termination options	0
Adjustments from the reassessment of contracts	–247
Other effects	0
Effect from discounting	–472
Lease liabilities from leases previously classified as operating leases due to first-time application of IFRS 16 as of January 1, 2019	**4,695**
Lease liabilities from leases previously classified as finance leases as of January 1, 2019	0
Lease liabilities recognized as of January 1, 2019	**4,695**

For information on the exercise of other options and on the underlying assumptions and estimates, especially in relation to the determination of the lease term and the incremental borrowing rate, please refer to the separate section “A. 10. Leases” and to “A. 21 Exercise of Judgment and Estimate Uncertainties”.

IFRIC 23 –
Uncertainty Over Income Tax Treatments

The interpretation explains how to recognize and measure current and deferred tax assets or liabilities when there is uncertainty over income tax treatments. It specifies in particular:

- how to determine the unit of account and that uncertain tax treatments should be considered separately or together based on which approach better predicts the resolution of the uncertainty;
- that the entity must assume that a taxation authority will examine the uncertain tax treatment and have full knowledge of all related information when making those examinations;
- that the entity must reflect the effect of uncertainty in its income tax accounts if it is not probable that the taxation authority will accept an uncertain tax treatment;
- that the effects of the uncertainty must be determined using either the most likely amount or the expected value method depending on which method the entity expects to better predict the resolution of the uncertainty;
- that a judgment or estimate always needs to be reassessed if the facts and circumstances on which the judgment or estimate was based change or as a result of new information that affects the judgment or estimate.

Although there are no new disclosure requirements, entities are reminded of the general obligation to provide information about assessment and estimates when preparing their financial statements.

IFRS 23 was issued in June 2017 and must be applied for the first time for financial years beginning on or after January 1, 2019. It was endorsed by the EU on 23 October 2018.

The effects on the consolidated financial statements of Softing AG were reviewed. This amendment has no effect on the Group.

Prepayment Features with Negative Compensation – Amendments to IFRS 9

The amendments to IFRS 9 announced on October 12, 2017 allow entities to measure certain financial assets with negative compensation at amortized cost in the event of early repayment. These assets, which include a number of credit and debt instruments, would otherwise be measured at fair value through profit or loss.

To be considered for measurement at amortized cost, the negative compensation must constitute appropriate compensation for early termination of the contract and the financial asset must be allocated to the "hold" business model.

In addition, the amendments clarify that the carrying amount of a financial liability must be adjusted in profit or loss immediately following a modification.

The amendments are effective for annual periods beginning on or after January 1, 2019. It was endorsed by the EU on March 22, 2018.

This amendment has no effect on the Group.

IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments to IAS 28 issued on October 12, 2017 clarify the accounting for long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture measured using the equity method but to which the equity method is not applied. IFRS 9 is used for recognition and measurement of these interests. Consequently, any impairment requirements for these interests are determined in accordance with IFRS 9. IFRS 28.8, which considers such shares in the loss allocation in connection with the application of the equity method on the value of interests, remains applicable, however.

The amendment must be applied for the first time for financial years beginning after January 1, 2019. Earlier application is permitted. It was endorsed by the EU on February 8, 2019.

The Group does not have any long-term investments in associates and joint ventures that are accounted for using the equity method.

Annual Improvements to IFRSs (2015–2017 Cycle)

The following improvements were announced on December 12, 2017:

IFRS 3: Where an entity, through acquisition of additional interests, obtains control as defined by IFRS 10 of a business that was previously a joint operation, this is referred to as a business combination achieved in stages. The entity therefore remeasures the previously held interest in the joint operation.

IFRS 11: Where an entity, through acquisition of additional interests, obtains joint control of a business that was previously a joint operation, the entity does not remeasure the previously held interest in that business.

IAS 12: Clarification that the income tax consequences of dividend payments on financial instruments classified as equity should be accounted for in accordance with the treatment of the transaction(s) leading to the tax effect.

IAS 23: Clarification that if any borrowings made specifically for the purpose of obtaining a qualifying asset remain outstanding after the related asset is ready for its intended use or sale, those borrowings become part of the funds that an entity borrows generally for other qualifying assets for which no specific borrowings are made.

The Group has applied the annual improvements since January 1, 2019. It was endorsed by the EU on March 14, 2019. This does not affect the consolidated financial statements of Softing AG.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments to IAS 19 contain provisions on accounting for plan amendments, curtailments or settlements. These require an entity:

- to use updated actuarial assumptions and the net liability (or net asset) at the intervention date to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement;
- to recognize in profit or loss as part of the past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognized because of the impact of the asset ceiling;
- to recognize the impact of changes in the asset ceiling in other comprehensive income.

The amendments are effective for annual periods beginning on or after January 1, 2019. It was endorsed by the EU on March 13, 2019. This does not affect the consolidated financial statements of Softing AG, because no plan amendments, curtailments or settlements were made in 2019.

Future requirements

The following new standards and interpretations have been published whose application is not yet mandatory in annual financial statements for the year ended December 31, 2019.

IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 to replace IFRS 4 Insurance Contracts. The measurement model used in IFRS 17 is based on determining the current fulfillment cash flows of the insurance contracts, which means their carrying amounts must be adjusted in each reporting period on the basis of changes in estimates. Insurance contracts are measured using a building block approach. The following building blocks are used for the measurement:

- discounted probability-weighted expected cash flows;
- explicit risk adjustment; and
- a contractual service margin that represents the unearned profit from the contract that the entity will recognize as it provides services in the future.

The standard provides an option to recognize the effects of changes in discount rates either in profit or loss or directly in other comprehensive income. Exercise of this option will probably reflect the way in which the insurance company recognizes its financial assets in accordance with IFRS 9.

For certain insurance contracts with a short coverage period, entities can choose a simplified method (premium allocation approach) to determine the provision for the future insurance cover. These short-term contracts are often entered into by property and casualty insurers.

For certain contracts entered into by life insurers in which the policyholder participates in the returns of the underlying assets, the standard's general measurement model is applied in the form of the variable fee approach. When this approach is applied, the entity's share in the fair value changes of the underlying assets is included in the contractual service margin. The earnings of insurers that apply this model will therefore probably be less volatile than if the general model is applied.

The new rules will affect the contracts entered into and the key figures of all entities that issue insurance contracts or investment contracts with discretionary participation features.

IFRS 17 was issued on May 18, 2017 and must be applied for the first time for financial years beginning on or after January 1, 2021. The date of EU endorsement has not yet been determined.

The effects on the consolidated financial statements of Softing AG are currently being reviewed. No material changes are expected.

Revision of the Conceptual Framework and Amendments to References to the Conceptual Framework in IFRS Standards

On March 29, 2018 the IASB released a revised version of the Conceptual Framework. The amendment includes revised definitions of assets and liabilities as well as new guidelines on measurement and derecognition, presentation and disclosure. The new Conceptual Framework does not constitute a substantial revision of the document. Instead the Board focused on topics that were not yet covered or that showed obvious shortcomings that needed to be dealt with. In addition, the IASB updated various cross references to the Conceptual Framework in individual standards.

The updated references in the individual standards are applicable from January 1, 2020. Earlier application is permitted. It was endorsed by the EU on November 29, 2019. This will not affect the consolidated financial statements of Softing AG.

Amendments to IAS 1 Presentation of Financial Statements, and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material

On October 31, 2018, the IASB issued amendments to IAS 1 and IAS 8 to clarify the definition of materiality of disclosures. Together with additional application explanations, the amendments will make it easier for preparers of IFRS financial statements in particular to assess materiality. In addition, the amendments ensure that the definition of material is consistent across all IFRS Standards.

The amendments are effective for annual periods beginning on or after January 1, 2020. It was endorsed by the EU on November 29, 2019. Earlier application is permitted. This will not affect the consolidated financial statements of Softing AG.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement, IFRS 9 Financial Instruments and IFRS 7 Financial Instruments – Disclosures: Interest Rate Benchmark Reform

The IASB issued amendments to IAS 39, IFRS 9 and IFRS 7 on September 26, 2019 in response to the uncertainty surrounding IBOR reform. These amendments relate to hedge accounting in accordance with the IFRSs. They address the prospective assessment of the effectiveness of hedge accounting, the adjustment of the "highly probable" criterion in relation to cash flow hedges as well as the IBOR risk component.

The amendments are effective for annual periods beginning on or after January 1, 2020. It was endorsed by the EU on January 16, 2020. Earlier application is permitted. This is not expected to affect the consolidated financial statements of Softing AG.

Amendments to IFRS 3 Business Combinations Definition of a Business

On October 22, 2018, the IASB issued amendments to IFRS 3 regarding the definition of a business. These are aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are changes to Appendix A, the application guidance and illustrative examples which clarify the three elements of a business.

The amendments are effective for annual periods beginning on or after January 1, 2020. The amendments are expected to be endorsed by the EU in the first quarter of 2020. Earlier application is permitted. This is not expected to affect the consolidated financial statements of Softing AG.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 clarify that gains or losses on the transfer of assets to an associate or joint venture must be recognized in full if the associate or joint venture constitutes a business as defined by IFRS 3. However, gains or losses on such a transaction are only recognized proportionally if the asset being transferred does not constitute a business. Entities will be able to apply the amendments prospectively.

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

B. ACCOUNTING POLICIES

The financial statements of Softing AG and its domestic and international subsidiaries have been prepared using uniform accounting policies. The accounting policies were applied consistently for all periods presented in the consolidated financial statements. In accordance with the transitional provisions, the figures for the previous year were not restated in the context of the first-time application of IFRS 16.

1. RECOGNITION OF REVENUE

Revenue is measured at the fair value of the consideration received or rendered, less returns and discounts and volume rebates granted. The following details apply to the recognition of revenue:

Revenue from the Sale of Products

Revenue from the sale of products is recognized when control of distinct goods is transferred to the customer. This means that the customer can direct the use of, and obtain substantially all of the remaining benefits from, the goods. A contract between Softing and the customer provides the basis for this. The parties must have agreed to the contract and the arrangements stipulated therein, the individual obligations of the parties and the payment terms must be identifiable, the contract must have commercial substance, and it must be likely that Softing will receive consideration for the service provided. The revenue generally corresponds to the transaction price. Softing bases its determination of the transfer of control on the Incoterms agreed. A receivable is reported on shipment of the goods because at this time the right to consideration is unconditional, meaning that from this date payment automatically becomes due in time. If the contract contains more than one distinct performance obligation, the transaction price is divided up between the individual performance obligations on the basis of the relative standalone selling prices. If no standalone selling prices can be observed, Softing estimates these. The individual identifiable performance obligations are realized on a specific date. Payments normally fall due no later than 30 days after the goods have been sent to the customer.

Revenue from Services

Revenue from services mainly comprises customer-specific software developments. If, based on their specifications, the customer developments do not have an alternative use and there is an enforceable right to payment from the customer at least in the amount of a refund of the costs arising from the performance completed to date, including a reasonable profit margin, revenue is recognized over time. The percentage of completion is calculated using the cost-to-cost method because the costs incurred represent the best indicator for the performance obligation that has already been satisfied. The performance that has been completed at the end of the reporting period is recognized as a proportion of the total performance to be completed. Where contracts include hardware installation, the revenue for the hardware is recognized at the date on which the hardware was delivered, ownership was transferred, and the customer accepted the hardware. Estimates concerning the revenue, cost or order progress are adjusted as soon as circumstances change. Any resulting increases or decreases in the estimated revenue or costs are recognized in profit or loss for the period in which management becomes aware of the circumstances leading to the adjustment. In the case of fixed-price contracts, the customer pays an amount set in a payment schedule. If the services Softing performs exceed the payment amount, a contract asset is recognized. If the payments are higher than the value of the services performed, a contract liability is disclosed.

Revenue from the performance of other services is recognized in the reporting period in which the services are performed. Where the contact stipulates a fixed hourly rate, revenue is recognized in the amount which Softing is entitled to invoice. Services are normally invoiced on a monthly or quarterly basis and payment is due within 30 days of receipt of invoice.

Interest Income

Interest is recognized using the effective interest method. Interest income from bank balances and other financial assets is recognized as income only if the Company is likely to partake of the economic benefit and if the amount of income can be reliably determined.

2. BASIS OF CONSOLIDATION

The consolidated financial statements as of December 31, 2019 include Softing AG and the following subsidiaries, over which Softing AG directly or indirectly exercises control:

Softing Group as of Dec. 31, 2019	Capital share/voting share	
	2019 %	2018 %
Softing AG, Haar/Germany		
Softing Automotive Electronics GmbH, Haar/Germany	100	100
Softing Services GmbH, Haar/Germany	100	100
Softing Engineering & Solutions GmbH, Kirchentellinsfurt/Germany, formerly Softing Messen und Testen GmbH	100	100
Softing Industrial Automation GmbH, Haar/Germany	100	100
Softing Italia s.r.l., Cesano Boscone/Italy	100	100
SoftingROM s.r.l., Cluj-Napoca/Romania	100	100
Buxbaum Automation GmbH, Eisenstadt/Austria	65	65
Softing Inc., Newburyport/USA	100	100
Softing North America Holding Inc., Delaware/USA	100	100
OLDI Online Development Inc., Knoxville/USA	100	100
Softing IT Networks GmbH, Haar/Germany	100	100
Softing Singapore Pte. Ltd., Singapore	100	100
Softing S.A.R.L., Paris/France	100	100
Softing Electronic Science & Technology (Shanghai) Co., Ltd., Shanghai/China formerly Shanghai Softing software Co., Ltd.	50	50
Softing Automotive Electronics (Kirchentellinsfurt) GmbH, Kirchentellinsfurt/Germany, formerly Softing Automotive Electronics Services GmbH	100	100
GlobalmatiX AG Vaduz/Liechtenstein	100	100
GlobalmatiX Inc., Knoxville/USA	100	100

The share of the profits of Softing Electronic Science & Technology (Shanghai) Co., Ltd., Shanghai/China formerly Shanghai Softing software Co., Ltd. attributable to minority interests amounted to EUR 110 thousand in the financial year ended (previous year: EUR 17 thousand) and that at Buxbaum Automation GmbH, Eisenstadt/Austria amounted to EUR 10 thousand (previous year: EUR –2 thousand).

As of December 31, 2019, there were no changes in the basis of consolidation of Softing AG compared to December 31, 2018.

The following changes occurred in the previous year:

GlobalmatiX AG
On March 16, 2018, Softing AG acquired all of the interests in GlobalmatiX AG in Vaduz, Liechtenstein.

GlobalmatiX AG is a mobile virtual network operator (MVNO) offering mobile data communications for vehicles and machinery in Europe and North America where such technology is needed in the areas of (semi-)autonomous driving and other connected services for vehicles and machinery.

This acquisition enables Softing to significantly extend its capabilities in the megatrends of digitalization and Industrie 4.0 and lays the foundation for new service-focused revenue.

The purchase price of EUR 13.7 million paid in shares of Softing AG was financed based on the authorization granted by the General Shareholders' Meeting of Softing AG on May 6, 2015 (Authorized Capital 2015). On March 16, 2018, the Executive Board of Softing AG decided with the approval of the Supervisory Board to increase the Company's share capital by EUR 1,450,000 from EUR 7,655,381 to EUR 9,105,381 shares against contributions in kind by issuing 1,450,000 new no-par bearer shares at an issue price of EUR 9.43. Mr. Alois Widmann, Vaduz, Principality of Liechtenstein, was permitted to subscribe to and accept the new shares. Mr. Widmann is transferring all of his shares in GlobalmatiX Aktiengesellschaft, headquartered in Vaduz, Liechtenstein, to the Company. The Company and Mr. Widmann entered into a transfer agreement to this effect on March 16, 2018.

GlobalmatiX Inc.
On October 30, 2018, Softing North America Holding Inc. founded GlobalmatiX Inc., Knoxville/USA. GlobalmatiX Inc. will take over marketing of GlobalmatiX AG products in North America.

Softing Electronic Science & Technology (Shanghai) Co., Ltd. (formerly Shanghai Softing software Co., Ltd.)
On February 10, 2018, Softing Services GmbH signed an agreement with Beijing Windhill Technology Co., Ltd. on the sale of 50% of the shares in Softing Electronic Science & Technology (Shanghai) Co., Ltd. (formerly Shanghai Softing software Co., Ltd., Shanghai/China. At the same time, Softing Services GmbH and Beijing Windhill Technology Co., Ltd. entered into an agreement on a future joint venture; the purchase price paid for 50% of the shares was EUR 1 thousand.

Softing is thus taking account of the considerable importance of the Chinese automotive market, which is characterized by a rapidly growing need for product and project solutions in Softing's core expertise in the development and diagnostics of control units. Up to 50 experienced sales and development employees are available to Softing Electronic Science & Technology (Shanghai) Co., Ltd. in the Shanghai and Beijing offices.

Softing Electronic Science & Technology (Shanghai) Co., Ltd. will continue to be included in the group of consolidated affiliated companies because Softing is responsible for the company's economic and financial management. Softing holds two of the three seats on its Board of Directors and Softing Electronic Science & Technology (Shanghai) Co., Ltd. is dependent on the marketing of software products developed by subsidiaries of Softing.

Softing Messen & Testen GmbH and Softing Projekt Services GmbH

Softing Project Services GmbH was merged into Softing Messen & Testen GmbH effective August 1, 2018. At the same time, Softing Messen & Testen GmbH was renamed Softing Engineering & Solutions GmbH domiciled in Kirchentellinsfurt.

Softing Automotive Electronics Services GmbH

Softing Automotive Electronics Services GmbH was renamed Softing Automotive Electronics (Kirchentellinsfurt) GmbH effective August 1, 2018.

The following subsidiaries avail themselves of exemption pursuant to Section 264 (3) German Commercial Code:

- Softing Industrial Automation GmbH (Haar)
- Softing Automotive Electronics GmbH (Haar)
- Softing Services GmbH (Haar)
- Softing Engineering & Solutions GmbH (Kirchentellinsfurt)
- Softing IT Networks GmbH (Haar)

3. PRINCIPLES OF CONSOLIDATION

Subsidiaries are all companies that the Group controls in terms of financial and operating policies. The consolidation of an entity is contingent on the possibility of control. According to IFRS 10, a control relationship requires power over an investee, returns, and the ability to affect those returns through this power. Power is defined as a situation in which the parent has the ability to direct the relevant activities of the investee which significantly affect the investee's returns. Power can be demonstrated by way of voting rights or other contractual rights. A combination of both is also possible. Power is exerted if an entity holds more than 50% of the voting rights in an investee, and no other contradictory agreements or circumstances exist. In assessing control, potential voting rights, economic dependence, the interest held compared with that of the other shareholders, and voting patterns at shareholder meetings must be taken into consideration.

Subsidiaries acquired are accounted for using the purchase method. The consideration for the acquisition is equal to the fair value of the transferred assets, the equity instruments issued by the Group and the liabilities assumed from the previous owners of the acquired subsidiary as of the acquisition date. In addition, the consideration paid includes the fair value of any recognized assets or liabilities arising from agreed contingent consideration. Acquired assets identifiable in the course of a business combination along with liabilities and contingent liabilities assumed are recognized when they are acquired at their fair value at the time of acquisition. For each acquisition of an entity, the Group decides on a case-by-case basis whether the non-controlling interests in the entities acquired are recognized at fair value or in the amount of their proportional share of the net assets of the acquired entity. Historically, the full goodwill method has not been applied.

Any contingent consideration to be paid by the Group is recognized at fair value at the time of acquisition. Future adjustments to the fair value of contingent consideration classified as an asset or a liability are measured in accordance with IFRS 9 and recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and, when settled later, is accounted for in equity.

Transactions involving non-controlling interests without a loss of control are reported as transactions with the owners of the Group acting in their capacity as owners. Any difference between the fair value of the consideration paid and the acquired interest in the carrying amount of the net assets of the subsidiary arising from the acquisition of a non-controlling interest is recognized in equity. Gains and losses arising from the sale to non-controlling interests are also recognized in equity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control begins and until the date on which control ends.

Intragroup sales, expenses and income, receivables and payables as well as the results of intragroup transactions (intercompany profits) are eliminated during consolidation.

4. INTANGIBLE ASSETS

Intangible assets comprise goodwill resulting from acquisition accounting as well as other intangible assets and capitalized development costs. With the exception of goodwill resulting from acquisition accounting, all intangible assets have a finite useful life.

5. DEVELOPMENT COSTS

Development costs for developing new products and for materially refining a product or process are capitalized if the product or process is technically and financially feasible; if there is an intention to complete it; if the development is marketable; if the costs can be reliably determined; and if the Group possesses sufficient resources to complete the development project. All other development costs are immediately recognized as expenses in the income statement. Capitalized development costs for completed projects are reported at cost net of accumulated amortization and impairment. In that connection, the costs also include allocable material and production overheads besides the costs of material and direct production. Administrative costs are capitalized only if there is a direct relationship to production. The Softing Group amortizes the development costs for new product lines and product versions over their respective useful life of between three and five years using the straight-line method; amortization in the year the product lines or versions are completed is recognized on a pro-rata basis. Amortization is shown in the consolidated income statement under the item “Depreciation of property, plant and equipment and amortization of intangible assets”. In accordance with IAS 38, research costs cannot be capitalized and are immediately recognized as an expense in the income statement.

6. GOODWILL

Goodwill arises in conjunction with the acquisition of subsidiaries and equals the total of the consideration paid, the amount of all non-controlling interests in the acquired entity, and the fair value of previously held equity interests in the acquired entity, less the fair value of the net assets acquired. If the fair value of the net assets acquired exceeds the total of the consideration paid, the amount of all non-controlling interests, and the fair value of the previously held equity interests, the difference is recognized directly in profit or loss.

According to IFRS 3, goodwill is not amortized but subjected to an annual impairment test pursuant to IAS 36 if there is an indication of impairment. For the purpose of this impairment test, goodwill is allocated to a cash generating unit (CGU).

At Softing, the cash generating units correspond to the individual entities unless an entity's business activity covers more than one segment. In this case, goodwill is allocated based on segments. The relevant cash generating units for goodwill are:

- Softing Engineering & Solutions GmbH, Kirchentellinsfurt/Germany
- Softing Industrial Automation GmbH, Haar/Germany
- OLDI Online Development Inc., Knoxville/USA
- Softing IT Networks GmbH, Haar/Germany & Softing Singapore Pte. Ltd., Singapore
- GlobalmatiX AG Vaduz/Liechtenstein
- GlobalmatiX Inc. Knoxville/USA

An impairment loss is recognized if the carrying amount of the cash generating unit to which the goodwill is allocated is higher than the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. If the carrying amount of the CGU is higher than its recoverable amount, the difference is directly recognized as an impairment charge in profit or loss. As the fair value less costs to sell cannot be determined with reasonable effort, the value in use is recognized.

The value in use of the cash generating unit was determined as follows: Based on the bottom-up planning for the next four financial years as approved by the management of Softing AG, the future cash flows (before interest and taxes) of the cash generating unit were determined. The planning is based on historical data and the best possible estimates of management regarding future developments. In order to carry out the impairment test, the management estimated the cash generated beyond the planning period, assuming that growth of 1.5% (previous year: 1.5%) is recorded in future years. The value in use of the underlying cash generating unit was determined by applying the discounted cash flow method. The discount rate used is a pre-tax interest rate based on the Weighted Average Cost of Capital (WACC) concept. These comprise the cost of equity and borrowing weighted at fair value. The costs of capital are determined using Capital Asset Pricing Model (CAPM) and comprise the risk-free interest rate and a risk premium calculated as the difference of the average market return and the risk-free interest rate multiplied by the company-specific risk (beta factor). The beta factor for this is derived from a group of comparable companies. The borrowing costs are composed of a base interest rate and a specific credit spread derived from capital market data. When determining the value in use, discount rates before taxes are taken as a basis for each cash-generating unit.

An impairment loss recognized on goodwill is not reversed in future periods.

7. OTHER INTANGIBLE ASSETS

Intangible assets acquired for consideration are carried at amortized cost. They are amortized in accordance with their respective useful life using the straight-line method. Software and technology is amortized over a period of three to seven years in accordance with its respective useful life using the straight-line method. Rights and business relations are amortized over a period of five to twenty years. Amortization is shown in the consolidated income statement under the item “Depreciation of property, plant and equipment and amortization of intangible assets”.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at cost, less accumulated depreciation, usage-based accumulated depreciation and usage-based accumulated impairment losses.

Property, plant and equipment is depreciated using the straight-line method in accordance with its useful life. Hardware is depreciated over three years; furniture and fixtures are depreciated over five to seven years, and new equipment installed is depreciated over the remaining term of the lease. Depreciation is shown in the consolidated income statement under the item “Depreciation of property, plant and equipment and amortization of intangible assets”. If fixed assets are disposed, cost and accumulated depreciation are derecognized; income/loss from the disposal of fixed assets is recognized in the consolidated income statement under other operating income/expenses.

Costs related to repairs and maintenance work are recognized as expenses at the time they are incurred. Significant renovations and improvements are only allocated to the carrying amount of the original asset or capitalized as a separate asset if it is probable that economic benefits will flow to the Group in connection with that asset in the future, and these benefits can be estimated reliably.

9. IMPAIRMENT

The Group reviews the carrying amounts of intangible assets and property, plant and equipment at each reporting date for indications of impairment. In this case, the recoverable amount of the relevant asset is determined for the purpose of determining the scope of the potential impairment loss. The recoverable amount is the higher of fair value less costs to sell or the value in use. The value in use corresponds to the present value of the estimated cash flows. An interest rate before taxes that corresponds to market rates is used as the discount rate. If no recoverable amount can be determined for an individual asset, the recoverable amount for the smallest identifiable class of assets (cash generating unit – CGU), to which the respective asset can be allocated, is determined. Goodwill resulting from acquisitions are allocated to the CGUs that are to reap the benefits from the synergies arising from the acquisition. Such cash generating units represent the lowest reporting level in the Group at which management monitors the goodwill for internal control purposes. The recoverable amount of a CGU that contains goodwill is tested for impairment at least once a year. This is also done for development projects that are currently under development. An impairment loss is recognized for an asset immediately if its recoverable amount is lower than its carrying amount. If the recoverable amount of the asset or the CGU is determined to be higher after an impairment loss has been recognized, the impairment loss recognized on goodwill is not reversed.

10. LEASES

Softing exclusively acts as a lessee in rental and lease agreements. Since January 1, 2019, it has recognized leases in accordance with the guidance of IFRS 16. Please refer to "A.3. New and Revised Standards" for explanations relating to first-time application.

Only the accounting policies with relevance for the Group from the perspective of the Softing Group as a lessee are described below. In line with the internal reporting, intercompany leases will also continue to be presented in accordance with IAS 17, as operating leases were in the past, and are eliminated for consolidated reporting purposes.

For all new contracts effective on or after January 1, 2019, Softing examines whether a contract is or contains a lease. However, for this the Group does not apply the guidance of IFRS 16 to right-of-use intangible assets.

A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. In application of this definition, the Group assesses whether the contract meets the following three preconditions:

- The contract refers to an identified asset which is either expressly indicated in the contract or is implicitly specified and can thus be considered to have been identified.
- The Group has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, while taking into consideration its rights within the defined scope of the contract.
- The Group has the right to determine the use of the identified asset throughout the period of use.

In the case of multiple-element arrangements, each separate lease component is accounted for separately, excluding real estate lease agreements for individual sites. Depending on the terms of the contract in question, the surrender of use and benefit of office and storage space as well as parking spaces for each site is accounted for as a single lease component. Non-lease components such as servicing and maintenance are recognized directly as an expense in the period in which the expenses are incurred.

Determination of the relevant lease term includes the contractual term, extension options and termination options. In the Softing Group, the assessment as to whether it is reasonably certain that a termination option, an extension option, or a purchase option will be exercised is generally made by the management of the individual company and is comprehensively determined following an evaluation of all economic advantages and disadvantages and reviewed periodically.

As of the date of provision of the leased asset, the Group recognizes a right-of-use asset and a lease liability in the balance sheet. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability less any initial direct costs incurred by the Group, an estimate of costs to be incurred in dismantling and removing the underlying asset when the lease ends, and any lease payments made before the commencement date, less any lease incentives received. In subsequent periods, the right-of-use asset will be measured at depreciated cost.

The lease liability is measured according to the present value of the lease payments made during the term of the lease, on the basis of the underlying interest rate for the lease or, if this is not available, the incremental borrowing rate of interest. Within the scope of the subsequent measurement, interest will accrue to the carrying amount of the lease liability on the basis of the interest rate used for discounting, while the lease payments made will be deducted from this carrying amount.

Based on Softing's current portfolio of contracts, the lease payments included in the measurement of the lease liability solely comprise fixed payments (including de facto fixed payments) and variable payments coupled to an index or (interest) rate.

In principle, changes to leases and remeasurements of lease liabilities are recognized in other comprehensive income against the right-of-use asset. They are recognized in the consolidated income statement if the carrying amount of the right-of-use asset has already been reduced to zero or this is the result of a partial termination of the lease.

As a rule, the Group depreciates on a straight-line basis the right-of-use assets from the start of the lease up to the end of the period of use of the leased asset or the end of the contract term, whichever is earlier. In addition, the Group tests for impairment in case of relevant indicators.

For short-term leases and leases of low-value assets, the corresponding payments are measured on a straight-line basis over the term of the lease and presented as an expense in the income statement.

In the statement of financial position, right-of-use assets are presented under property, plant and equipment, while lease liabilities are presented under other current and non-current financial liabilities.

Until 2018, the Company had applied the provisions of IAS 17 for the classification and measurement of its leases. The Company had only entered into operating leases. The lease payments were recognized over the relevant term on a straight-line basis. In accordance with IAS 17, there were no finance leases.

11. INVENTORIES

Inventories are recognized at the lower of cost or net realizable value. As a rule, production supplies and goods for resale/finished merchandise are recognized at the weighted average.

Production costs comprise material and production costs overheads directly attributable to the production process as well as reasonable amounts of the production-related overheads. Production costs do not include selling costs and general administration costs. If the net realizable value at the balance sheet date is below cost, for instance because of long periods of storage, damage or reduced marketability, inventories are written down to the lower value. Net realizable value is the estimated selling price of the item in the course of ordinary business less estimated costs incurred until completion and less estimated necessary selling costs.

12. FINANCIAL ASSETS – IFRS 9

Financial assets comprise in particular:

- Equity instruments in other companies held by the Group
- Trade receivables
- Other financial assets
- Cash and cash equivalents

Financial assets with a term of more than twelve months are presented under non-current financial assets.

Financial assets are classified based on the underlying business model and the cash flow characteristics, which stipulate that the contractual cash flows of a financial asset may solely comprise repayments of principal and interest on the principal amount outstanding. The cash flow characteristics are always tested at the level of the individual financial instrument. The business model is assessed based on the question of how financial assets can be managed to generate cash flows. Management can be based on a hold or sell model or a combination of the two.

The Group divides financial assets into one of the following categories:

- Financial assets measured at amortized cost (debt instruments)
- Financial assets at fair value through other comprehensive income (debt instruments)
- Financial assets at fair value through profit or loss
- Financial assets at fair value through other comprehensive income (equity instruments)

Financial Assets Measured at Amortized Cost (Debt Instruments)

The most important category of financial assets for the Group is the category of assets measured at amortized cost relating to debt instruments. They are recognized at amortized cost if the following two criteria are met:

- The business model for managing these financial instruments involves holding them to collect the underlying contractual cash flows, and
- The contractual cash flows generated consist solely of principal and interest.

These financial assets are subsequently measured using the effective interest method subject to the impairment rules in IFRS 9.5.5 ff. In the Group it is mainly trade receivables, other financial assets and bank deposits that belong to this category.

Financial Assets at Fair Value Through Other Comprehensive Income (Debt Instruments)

Debt instruments are recognized at fair value through other comprehensive income including recycling if the following two criteria are met:

- The business model for managing these financial instruments involves holding them to collect the underlying contractual cash flows, and selling them, and
- The contractual cash flows generated consist solely of principal and interest.

For this category of financial assets, interest, foreign currency measurement effects, and expenses and income are recognized through profit or loss in the income statement in connection with impairment losses. Any changes are recognized in other comprehensive income in accordance with IFRS 9 and reclassified to profit or loss when the assets are sold (recycling).

In the Group, the measurement of the newly acquired investment is subject to this classification.

Financial Assets at Fair Value Through Profit or Loss

This category comprises financial assets held for trading, financial instruments measured using the fair value option, financial assets mandatorily at fair value and equity instruments not measured at fair value through other comprehensive income. An asset is classified as held for trading if it is acquired or incurred for the purpose of selling or repurchasing it in the near term. Derivatives that are not part of a hedge are always held for trading. Financial assets that do not satisfy the cash flow characteristics are always measured at fair value through profit or loss irrespective of the underlying business model. The same measurement applies to financial instruments that are held within a business model whose objective is to collect contractual cash flows (“sell” model).

The fair value option for financial assets is not used in the Group.

Any changes in the fair value of these instruments are recognized in profit or loss.

The Group currently does not have any financial assets that fall in the scope of this measurement category.

Financial Assets at Fair Value Through Other Comprehensive Income (Equity Instruments)

When recognizing an equity instrument for the first time, the Group has the irrevocable option to measure this at fair value through other comprehensive income. This is subject to the condition that the instrument is an equity instrument in accordance with IAS 32 that is not held for trading purposes and does not constitute contingent consideration within the meaning of IFRS 3. The option is exercised separately for each individual equity instrument.

On the disposal of such financial assets, any gains or losses are not recycled through profit or loss. Dividends from such instruments are recognized in profit or loss. Equity instruments measured at fair value through other comprehensive income are not subject to the provisions on impairment.

The Group currently does not have any financial assets that fall in the scope of this measurement category.

Impairment of Financial Assets
Financial assets, except financial assets measured at fair value through profit or loss, contract assets in accordance with IFRS 15, lease receivables, loan commitments and financial guarantees are subject to the impairment model within the meaning of IFRS 9.5.5. According to this approach, the Group must recognize a loss allowance on these assets based on the expected credit loss. The expected credit loss is the difference between the contractually agreed cash flows and the expected cash flows, measured at present value and applying the original effective interest rate. Expected cash flows also include proceeds from short hedges and other loan collateral that is an integral part of the relevant contract.

As a rule, expected credit losses are recognized in three stages. For financial assets which have not experienced a significant increase in credit risk since initial recognition, a loss allowance in the amount of the expected 12-month credit loss is recognized (Level 1). Where a significant increase in credit risk has occurred, the expected credit loss for the remaining lifetime of the asset is determined (Level 2). The Group generally assumes that a significant increase in credit risk has occurred if payments are 30 days past due. This principle can be refuted if reliable and justifiable information indicates in individual cases that credit risk has not increased. If there is objective indication of impairment, the underlying assets must be assigned to Level 3. Objective evidence of impairment is assumed if the assets are more than 90 days past due unless there is reliable, justifiable information in the specific case that longer arrears are more appropriate. Moreover, a refusal to make payment and similar are considered objective evidence of impairment.

The class of assets that is relevant for the Group for application of the simplified impairment model comprises trade receivables and contract assets. For these, the Group applies the simplified approach in accordance with IFRS 9.5.15. In this approach, the loss allowance always equals the credit loss expected over the lifetime of the asset.

For other assets subject to the amended impairment model in IFRS 9 and to which the general approach is applied, the expected credit loss is measured by grouping financial assets on the basis of common credit risk characteristics, and considering individual default information. In any case, the calculation is based on current probabilities of default on the respective reporting date.

Softing generally assumes that a default has occurred when contractual payments are more than 360 days past due. In addition, in individual cases, other internal and external information may be considered that indicates that contractual payments cannot be paid in full. Financial assets are derecognized when there is no reasonable expectation that future payments will be made.

13. CONTRACT ASSETS AND CONTRACT LIABILITIES

Contract assets arise from the application of revenue recognition over time. At Softing this is particularly the case when the products, based on their specifications, do not have an alternative use and there is an enforceable right to payment from the customer at least in the amount of a refund of the costs arising from the performance completed to date, including a reasonable profit margin (software development for customers). In such cases, Softing recognizes revenue on the basis of the input-oriented cost-to-cost method. Here, the revenue is recognized in accordance with the stage of completion. The stage of completion is the proportion that contract costs incurred for work performed to date bear to the total contract costs.

Since revenue is required to be recognized before the date on which Softing has an unconditional right to consideration, a contract asset is recognized.

Contract liabilities mainly result from advances received from customers where these are in connection with a customer order and the products have not yet been delivered or performance completed.

Contract assets and contract liabilities are netted at the level of the individual contract. The contract balances at Softing generally have a current remaining term.

The provisions of IFRS 9 on impairment are applied to contract assets.

14. CURRENT ASSETS

Current assets are initially measured at fair value and then are recognized at depreciated or amortized cost.

15. CURRENT AND DEFERRED TAXES

The tax expense for the period comprises current and deferred taxes.

Taxes are recognized in the consolidated income statement unless they relate to an item that was recognized directly in equity or in other comprehensive income. In this case, the taxes are also recognized in equity or in other comprehensive income.

The current tax expense is measured based on the tax regulations of the countries in which Softing and its subsidiaries do business and generate taxable income that are applicable on the reporting date (or applicable in the near future). Management regularly reviews tax returns, particularly with regard to circumstances open to interpretation and, where appropriate, recognizes provisions in the amounts the Company is expected to have to pay to the tax authorities. Income taxes are determined using the balance sheet liability method.

As a rule, deferred tax assets and deferred tax liabilities are recognized for all temporary differences between the carrying amount of an asset or liability and its fair value determined for tax purposes. Deferred tax assets are also recognized for tax loss carryforwards and tax credits.

Deferred tax assets on tax loss carryforwards must be recognized to the extent that the future use of these tax loss carryforwards is probable. All deferred tax assets on tax losses were therefore recognized taking their realizability into account.

Deferred taxes are determined on the basis of the tax rates which, based on the current legal situation, apply at the time of realization or which are expected to apply in the individual countries. The effect of changes in tax rates on deferred taxes is recognized in profit or loss, or in equity, at the time the legal changes become effective.

Deferred tax assets are only recognized in the amount in which it is probable that taxable income will be available against which temporary differences can be applied.

Deferred tax liabilities and assets, which arise through temporary differences in the context of investments in subsidiaries are recognized, unless the Group can determine when the temporary differences reverse and it is probable that the temporary differences will not reverse in the foreseeable future as a result of this effect.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

16. PENSION PROVISIONS

Provisions for defined benefit pension plans are measured in accordance with IAS 19 using the projected unit credit method. This method takes into account not only the pensions and benefits accrued but also expected future pension increases based on a prudent assessment of relevant factors. Calculation is based on actuarial expert opinions taking into consideration biometrical assumptions and a discount rate derived from the yield of high-quality corporate bonds with matching maturities. The amount of the provision for defined benefit plans recognized in the statement of financial position corresponds to the present value of the defined benefit obligation on the balance sheet date less the fair value of the plan assets. The present value is calculated by discounting the expected future cash flows at an interest rate applicable to high-quality corporate bonds. Actuarial remeasurements are recognized in other comprehensive income.

17. PROVISIONS

The other provisions are recognized for all other contingent liabilities and risks of the Softing Group toward third parties. They are recognized only if the current obligation (factually or legally) arises from a past event, if utilization is probable, and if the amount of the obligation can be estimated reliably. The amount recognized comprises the present value of the expected expenditure, including interest cost, if any, on non-current provisions, required to settle the present obligation at the balance sheet date.

18. CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

Financial liabilities frequently constitute an obligation to return in cash and cash equivalents or another financial asset. Financial liabilities are only recognized if Softing is a party to the agreement governing the financial liabilities. Financial liabilities are removed from the statement of financial position when they have been extinguished, i.e. when the obligations specified in the contract are discharged or canceled or expire.

Upon initial recognition, financial liabilities are measured at fair value after deduction of transaction costs. They are subsequently measured at amortized cost. Any difference between the disbursement amount (after deduction of transaction costs) and the repayment amount is amortized over the term of the loan using the effective interest method and recognized in the consolidated income statement. All financial liabilities held for trading fall into the category of financial liabilities at fair value through profit or loss. These include derivatives that are not part of a hedge and financial instruments for which the fair value option was exercised. Softing does not have any such financial instruments at present.

The Group has not made use of the fair value option for debt instruments in accordance with IFRS 9.

Financial liabilities comprise the statement of financial position items “Short-term and long-term borrowings”, “Trade payables” and “Other current financial liabilities”.

19. SHORT-TERM AND LONG-TERM BORROWINGS

Short-term borrowings include current liabilities to banks that are due within one year. Long-term borrowings include liabilities to banks that are due after more than one year. Short-term and long-term borrowings are initially recognized at fair value.

Borrowings are classified as short-term if Softing does not have the unconditional right to postpone extinguishment of the liability to a point in time at least twelve months after the balance sheet date.

20. CURRENT NON-FINANCIAL LIABILITIES

Non-financial liabilities are carried at the repayment amount.

21. SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS

The preparation of the consolidated financial statements in accordance with the provisions of the IASB requires forward-looking assumptions to be made and estimates to be used that have an effect on the carrying amounts of recognized assets and liabilities, income, expenses, and contingent liabilities. The forward-looking assumptions and estimates essentially relate to the uniform determination of useful lives throughout the Group, the determination of the term of leases, the determination of the incremental borrowing rate for leases, the recognition and measurement of provisions (in particular pension provisions), and the realizability of future tax benefits as well as the material exercise of judgment with regard to the expected time of occurrence, the amount of the future taxable income, and future tax planning strategies (tax forecasts). As a rule, the forward-looking assumptions and estimates are based on experience and knowledge gained from the past; they also take into account macroeconomic factors which might be used as a reliable basis. Forecasts are intrinsically uncertain and difficult especially because they are forward-looking. In individual cases, the actual values may deviate from the assumptions and estimates. The assumptions and estimates are reviewed regularly. Changes are recognized in profit or loss as of the time better knowledge is obtained, or in the period in which better knowledge is obtained, as well as in future periods if the changes comprise several periods.

The most important forward-looking assumptions and other material sources of estimate uncertainties as of the closing date that could result in a considerable risk of having to make significant adjustments to the recognized assets and liabilities in the next financial year concern the measurement of pension provisions, and the possible impairment of goodwill. The weighted average cost of capital (WACC) and the tax rates are the material parameters for carrying out the annual impairment test of goodwill.

Recognizing revenue over time using the cost-to-cost input method entails recognizing revenue based on the stage of completion. This method requires careful assessment of the stage of completion. Factors such as contract revenue, total contract costs, costs yet to be incurred until completion and contract risks are material to the estimate.

There is discretion in assessing the criteria relevant to the capitalization of development costs and the amount of the hourly rates for personnel used in the capitalization. The following assessments, in particular, are subject to our discretion: whether the given asset possesses technical and commercial utility for sale or own use; whether we plan on and are capable of completing the intangible asset and either using or selling it; and whether the asset will generate a future economic benefit.

22. CURRENCY TRANSLATION

Foreign currencies are translated using the functional currency method as defined in IAS 21. With the exception of Softing IT Networks in Singapore, where the functional currency is the USD, the functional currency of all foreign subsidiaries is the respective local currency because the material foreign companies that are included in the consolidated financial statements operate their businesses independently in financial, economic and organizational terms primarily in their respective economic environment. The exchange rate risk within the Softing Group is essentially restricted to USD, RON and CHF.

For Group companies which do not report in EUR, the assets and liabilities are translated into euros at the exchange rate applicable at the balance sheet date, and expenses and income are translated at the annual average exchange rate for the purpose of preparing consolidated financial statements. Equity is translated at historical rates. Currency translation differences, including those arising from acquisition accounting, are recognized in other comprehensive income.

Goodwill and fair value adjustments arising during an acquisition of a foreign entity are recognized as assets and liabilities of the foreign entity and translated at the rate of exchange on the closing date. All resulting currency translation differences are recognized in other comprehensive income.

The euro exchange rates applicable for currency translation changed as follows:

	USD / EUR		RON / EUR		CHF / EUR	
	2019	2018	2019	2018	2019	2018
Closing rate (Dec. 31)	1.12	1.15	4.78	4.66	1.09	1.13
Average exchange rate	1.12	1.18	4.75	4.65	1.13	1.16

Currency gains or losses resulting from foreign currency transactions (transaction in a currency other than a company's functional currency) are reported as other operating income or other operating expenses in the individual financial statements of the Group companies.

C. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1. CHANGES IN THE BASIS OF CONSOLIDATION

As of December 31, 2019, there were no changes in the basis of consolidation of Softing AG compared to December 31, 2018.

As of December 31, 2018, the following changes occurred in the basis of consolidation of Softing AG compared to December 31, 2017:

GlobalmatiX AG
On March 16, 2018, Softing AG acquired all of the interests in GlobalmatiX AG in Vaduz, Liechtenstein.

GlobalmatiX AG is a mobile virtual network operator (MVNO) offering mobile data communications for vehicles and machinery in Europe and North America where such technology is needed in the areas of (semi-)autonomous driving and other connected services for vehicles and machinery.

This acquisition enables Softing to significantly extend its capabilities in the megatrends of digitalization and Industrie 4.0 and lays the foundation for new service-focused revenue.

The fair value of the identifiable consolidated assets and liabilities of the acquired companies and the corresponding consolidated carrying amounts were as follows immediately prior to the time of acquisition:

EUR (in thsds.)	Carrying amount immediately prior to the business combination	Fair value as of the date of initial consolidation
Intangible assets	0	12,313
Property, plant and equipment	25	25
Cash and cash equivalents	5	5
Short-term borrowings	383	383
Trade payables	131	131
Provisions and accrued liabilities	18	18
Deferred taxes	0	1,500
Net assets (100 %)	–502	10,310
Consideration/purchase price in shares		13,427
Goodwill		3,117

The Group is amortizing the intangible asset relating to the mobile communications license arising from the purchase price allocation according to the straight-line method over a period of 15 years.

The cash flow to equity method and the reconstruction method with different measurement assumptions were used to determine the carrying amount of the mobile communications license:

Cash flow to equity based on the intended business model, applying a discount rate depending on the revenue potential and taking into account a venture capital premium (interest rates 25–40%); Cash flow to equity based on the intended business model, applying a default rate to the calculated present value; Cash flow to equity based on an alternative business model, applying a discount rate and taking into account the risk profile and a venture capital premium (interest rates 25–40%); determination of a reconstruction value of a comparison transaction.

The goodwill acquired includes the workforce and established relationships with customers and contractual partners.

The gross amount of assets at the time of acquisition corresponds to their fair value.

The purchase price was financed by issuing Softing shares based on the authorization granted by the General Shareholders' Meeting of Softing AG on May 6, 2015 (Authorized Capital 2015). On March 16, 2018, the Executive Board of Softing AG decided to increase the Company's share capital with the approval of the Supervisory Board by EUR 1,450,000.00 from EUR 7,655,381.00 to EUR 9,105,381.00 by issuing 1,450,000 new no-par bearer shares from authorized capital against contributions in kind at an issue price of EUR 9.43. The purchase price at the time of acquisition therefore amounted to the fair value of the shares issued (EUR 9.26) of EUR 13,427 thousand. The transaction costs of the capital increase amounted to EUR 80 thousand. Mr. Alois Widmann, Vaduz, Principality of Liechtenstein, was permitted to subscribe to and accept the new shares. Mr. Widmann is transferring all of his shares in GlobalmatiX Aktiengesellschaft, headquartered in Vaduz, Liechtenstein, to the Company. The Company and Mr. Widmann had entered into a transfer agreement to this effect on March 16, 2018.

No contingent consideration was agreed.

The goodwill is not tax-deductible.

The consolidated income statement for the previous year includes total revenue of EUR 0.0 million, losses of EUR 0.4 million, and depreciation and amortization of EUR 0.6 million from purchase price allocation from GlobalmatiX AG. The incidental costs of the acquisition amounted to EUR 0.1 million.

Compared to the interim financial statements as of June 30, 2018, the purchase price allocation has been restated by EUR 0.6 million, which is based on a better understanding of the assessment of the eligibility for capitalization of the technological platform for controlling the mobile connection in the amount of EUR 0.3 million as of the date of initial consolidation and the recognition of the fair value of the consideration in the amount of EUR 0.3 million as of the date of entry in the commercial register. In total, goodwill was reduced by EUR 0.6 million compared to the initial recognition during the year at the end of the comparative period.

GlobalmatiX Inc.

On October 30, 2018, Softing North America Holding Inc. founded GlobalmatiX Inc., Knoxville/USA. GlobalmatiX Inc. will take over marketing of GlobalmatiX AG products in North America.

Softing Electronic Science & Technology (Shanghai) Co., Ltd.

On February 10, 2018, Softing Services GmbH signed an agreement with Beijing Windhill Technology Co., Ltd. on the sale of 50% of the shares in Shanghai Softing software Co., Ltd., Shanghai/China. At the same time, Softing Services GmbH and Beijing Windhill Technology Co., Ltd. entered into an agreement on a future joint venture; the purchase price paid for 50% of the shares was EUR 1 thousand.

Softing is thus taking account of the considerable importance of the Chinese automotive market, which is characterized by a rapidly growing need for product and project solutions in Softing's core expertise in the development and diagnostics of control units. Up to 50 experienced sales and development employees are available to Softing Electronic Science & Technology (Shanghai) Co., Ltd. in the Shanghai and Beijing offices.

Softing Electronic Science & Technology (Shanghai) Co., Ltd. will continue to be included in the group of consolidated affiliated companies because Softing is responsible for the company's economic and financial management. Softing holds two of the three seats on its Board of Directors and Softing Electronic Science & Technology (Shanghai) Co., Ltd. is dependent on the marketing of software products developed by subsidiaries of Softing.

Softing Messen & Testen GmbH and Softing Projekt Services GmbH

Softing Project Services GmbH was merged into Softing Messen & Testen GmbH effective August 1, 2018. At the same time, Softing Messen & Testen GmbH was renamed Softing Engineering & Solutions GmbH domiciled in Kirchentellinsfurt.

Softing Automotive Electronics Services GmbH

Softing Automotive Electronics Services GmbH was renamed Softing Automotive Electronics (Kirchentellinsfurt) GmbH effective August 1, 2018.

2. GOODWILL

	Dec. 31, 2019 EUR (in thsds.)	Dec. 31, 2018 EUR (in thsds.)
Softing Engineering & Solutions GmbH	2,055	2,055
Softing Industrial Automation GmbH	384	384
Softing IT Networks GmbH (Psiber Data GmbH)	5,181	5,181
OLDI Online Development Inc.	7,387	7,248
GlobalmatiX AG	3,117	3,117
Goodwill	**18,124**	**17,985**

Due to the change in the EUR/USD exchange rate, the goodwill of OLDI Online Development Inc. changed by EUR 139 thousand in 2019.

The entities' goodwill was tested for impairment pursuant to IAS 36. The recoverable amount of the CGUs was determined based on a calculation of the entities' value in use. The impairment test did not result in any need to write down the goodwill. The following parameters were used for the items of goodwill:

- Discount rates (WACC) before taxes: 7.52% – 9.12% (previous year: 7.7% – 13.8%)
- Risk-free interest rate: 0.19% – 2.28% (previous year: 0.99% – 3.31%)
- Market risk premium: 5.25% – 7.00% (previous year: 5.08% – 6.50%)
- Beta factor (weighted average of a group of comparable companies): 1.18 (previous year: 1.06 – 1.31)

Management has planned the cash flows for a period of 4 years, after which a growth rate of 1.5% was assumed for extrapolating the cash flow forecasts.

A change in the interest rate by 100 basis points would not lead to a write-down of goodwill, neither would a decrease in the planned gross revenue by 5%.

The material planning premises include, in particular, the expected development of the market in relation to the performance of Softing AG, the change in both sales and profits and the weighted average cost of capital. General market forecasts and current developments as well as historical experience are used to establish the assumptions. In particular, the long-term growth rates reflect circumstances specific to the business.

Besides sales, the margin is the material driver of value in the determination of the recoverable amount. The discount rate also has a significant impact on the measurement gain or loss.

The margin is adjusted to expected developments in the market during the budgetary period.

At the end of December, Softing acquired a stake in a start-up company by way of a capital increase; this company is allocated to the Automotive segment. The equity interest acquired is less than 10%. An obligation to transfer an additional EUR 1,495 thousand to the capital reserves of the investee was written into the investment agreement. This payment is presented under other current liabilities as of the balance sheet date and was made at the beginning of 2020. For subsequent measurement of the equity investment the Group decided to recognize the effects of amendments to the underlying standards in other comprehensive income. Due to the fact that the transaction took place immediately before the balance sheet date and was implemented on the basis of a company valuation, there were no changes in the fair value.

3. DEVELOPMENT COSTS

The change in capitalized development costs is shown in the changes in intangible assets and property, plant and equipment (appendix to the notes to the consolidated financial statements).

Expenses for research and development (without capitalized development costs) in the financial year just ended totaled EUR 15,138 thousand (previous year: EUR 15,914 thousand).

No impairment losses were recognized in addition to amortization.

The following overview shows the total expenditures for research and development:

	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Capitalized development costs	5,526	4,425
Expenses not qualifying for capitalization	15,138	15,914
	20,664	**20,339**

4. OTHER INTANGIBLE ASSETS

The development of other intangible assets is shown in the changes in intangible assets and property, plant and equipment (appendix to the notes to the consolidated financial statements).

No impairment losses were recognized in addition to amortization.

5. PROPERTY, PLANT AND EQUIPMENT

The change in property, plant and equipment is shown in the changes in intangible assets and property, plant and equipment, which is attached to the consolidated financial statements. No impairment losses were recognized in addition to amortization. The Group has entered into leases for several properties, mostly for office space and, to a lesser extent, storage facilities. Other leases have been entered into for vehicles. A new property lease was signed in the reporting period. Rental agreements were concluded with terms of between one and five years and include extension options in some cases.

The rights of use to motor vehicles cover the leased fleet. As of December 31, 2019, approximately 60 leases for vehicles with remaining terms of between one and three years had been concluded.

Please refer to section C15 for information on the corresponding lease liabilities.

6. INVENTORIES

	Dec. 31, 2019 EUR (in thsds.)	Dec. 31, 2018 EUR (in thsds.)
Raw materials and consumables	3,680	3,161
Finished goods	8,916	7,396
Inventories	**12,596**	**10,557**

Loss allowances recognized in 2019 total EUR 116 thousand (previous year: EUR 51 thousand). As in the previous year, no reversals of impairment losses were recognized in profit or loss. The purchased inventories are subject to reservation of title until the purchase price receivable has been settled.

7. TRADE RECEIVABLES

Trade receivables are non-interest-bearing and are due in less than one year. All trade receivables are receivables from contracts with customers.

Softing recognizes loss allowances for general credit losses using the expected loss model in accordance with IFRS 9.5.5. These are initially recognized through allowance accounts unless it can be assumed at the time the reason for the loss allowance arises that the receivable will be unrecoverable in full or in part. In such cases, the carrying amount of the receivables is written down directly through profit or loss.

Risk provision for trade receivables:

	Carrying amount	Of which impaired receivables (stage 3)	Of which neither past due nor impaired	Of which not impaired and past due within the following time bands			
				Less than 90 days	91 to 180 days	181 to 360 days	More than 360 days
Dec, 31, 2019	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Trade receivables (gross)	15,630	250	13,177	2,070	133		
Risk provision (stage 2)	–21		–13	–7	–1		
Risk provision (stage 3)	–250	–250					
Trade receivables (net)	**15,359**	**0**	**13,164**	**2,063**	**132**	**0**	**0**

Changes in expected credit losses on trade receivables are shown in the following table:

As of Jan. 31, 2019 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2019 EUR (in thsds.)
297	34	0	13	–276

	Carrying amount	Of which impaired receivables (stage 3)	Of which neither past due nor impaired	Of which not impaired and past due within the following time bands			
				Less than 90 days	91 to 180 days	181 to 360 days	More than 360 days
Dec. 31, 2018	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Trade receivables (gross)	13,979	269	9,355	4,267	68	6	14
Risk provision (stage 2)	–28		–9	–18	–1	0	0
Risk provision (stage 3)	–269	–269					
Trade receivables (net)	**13,682**	**0**	**9,346**	**4,249**	**67**	**6**	**14**

	As of Dec. 31, 2017 EUR (in thsds.)	Transition to IFRS 9 EUR (in thsds.)	As of Jan. 01, 2018 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2018 EUR (in thsds.)
2018	372	26	398	135	0	8	297

8. CONTRACT ASSETS AND CONTRACT LIABILITIES

Risk provision for contract assets:

	Carrying amount	Of which neither past due nor impaired	Of which not impaired and past due within the following time bands			
			Less than 90 days	91 to 180 days	181 to 360 days	More than 360 days
Dec. 31, 2019	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Contract assets (gross)	2,641	2,641	0	0	0	0
Risk provision (stage 2)	–1	–1	0	0	0	0
Contract assets (net)	**2,640**	**2,640**	**0**	**0**	**0**	**0**

	Carrying amount	Of which neither past due nor impaired	Of which not impaired and past due within the following time bands			
			Less than 90 days	91 to 180 days	181 to 360 days	More than 360 days
Dec. 31, 2018	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)	EUR (in thsds.)
Contract assets (gross)	2,069	2,069	0	0	0	0
Risk provision (stage 2)	–1	–1	0	0	0	0
Contract assets (net)	**2,068**	**2,068**	**0**	**0**	**0**	**0**

Revenue of EUR 1,551 thousand (previous year: EUR 1,441 thousand) from contracts with customers included in contract liabilities at the beginning of the period was recognized in the current period. A transaction price totaling EUR 3,389 thousand (previous year: EUR 3,048 thousand) is allocated to the performance obligations that were partly or entirely unsatisfied at the end of the reporting period. Softing will recognize EUR 2,743 thousand (previous year: EUR 2,635 thousand) of the transaction price in the next reporting period and EUR 646 thousand (previous year: EUR 413 thousand) in subsequent periods. The transaction prices stated are prices for customer-specific software maintenance agreements and customer-specific engineering work. For performance obligations with a maximum term of one year or where invoicing is based on fixed hourly rates, the transaction price is not stated in accordance with IFRS 15.

9. CURRENT INCOME TAX ASSETS

The current income tax assets concern corporation tax receivables amounting to EUR 1,864 thousand (previous year: EUR 1,651 thousand). The Group's taxes are described in detail in section D 9.

10. CASH AND CASH EQUIVALENTS

	Dec. 31, 2019 EUR (in thsds.)	Dec. 31, 2018 EUR (in thsds.)
Cash and cash equivalents	14,917	9,682

Cash and cash equivalents include cash and bank balances and are measured at their nominal value as of the balance sheet date. Bank balances comprise time deposits and current account funds; these time deposits can be liquidated within three months. Cash and cash equivalents are not impacted significantly by foreign currencies. A review of the banks' ratings has not revealed any additional risks to cash. The maximum counterparty credit risk corresponds to the carrying amounts.

11. CURRENT ASSETS

	Dec. 31, 2019 EUR (in thsds.)	Dec. 31, 2018 EUR (in thsds.)
Receivables from employees	1	7
VAT receivables	51	
Prepaid expenses/prepayments	603	517
Advances paid	56	22
Other non-financial assets	119	86
Other financial assets	25	71
	855	**703**

12. EQUITY

Subscribed Capital

As of the balance sheet date, the fully paid-in share capital of the Company was EUR 9,105,381 (previous year: EUR 9,105,381 thousand). It is divided into 9,105,381 (previous year: 9,105,381) no-par-value bearer shares with a notional value of EUR 1 each. An average of 9,105,381 shares were outstanding in the reporting year (previous year: 8,771,682). Based on the authorization granted by the General Shareholders' Meeting on May 6, 2015 (Authorized Capital 2015), the purchase price of GlobalmatiX AG was paid in Softing AG shares with a total issue value of EUR 13.7 million. On March 16, 2018, the Executive Board of Softing AG decided with the approval of the Supervisory Board to increase the Company's share capital by EUR 1,450,000 from EUR 7,655,381 to EUR 9,105,381 shares against contributions in kind by issuing 1,450,000 new no-par bearer shares at an issue price of EUR 9.43 (not the value relevant pursuant to IFRSs because the fair value as of the issue date is used here). Mr. Alois Widmann, Vaduz, Principality of Liechtenstein, was permitted to subscribe to and accept the new shares. Mr. Widmann is transferring all of his shares in GlobalmatiX Aktiengesellschaft, headquartered in Vaduz, Liechtenstein, to the Company. The Company and Mr. Widmann entered into a transfer agreement to this effect on March 16, 2018.

Shareholders' voting rights are not restricted by law or the Company's Articles of Incorporation. The voting rights are not limited to a specific number of shares or votes.

For more information, please see the disclosures under Section 315 (4) German Commercial Code in the management report.

Authorized Capital

The Executive Board is authorized to increase the Company's share capital with the approval of the Supervisory Board once or several times by up to EUR 4,552,690.00 by issuing up to 4,552,690 new no-par bearer shares against contributions in cash and/or in kind (authorized capital 2018) until May 8, 2023. The Executive Board is also authorized to disapply shareholders' statutory pre-emptive right with the approval of the Supervisory Board

- as necessary for offsetting fractional shares;
- if the shares are issued against in-kind contributions for the purpose of acquiring companies or equity interests in companies or business units or for the purpose of acquiring receivables from the given entity;

- if a capital increase against cash contributions does not exceed 10% of the share capital and the issue price of the new shares is not substantially lower than the share price pursuant to Section 186 (3) sentence 4 German Stock Corporation Act. Disapplying shareholders' pre-emptive right under other authorizations pursuant to Section 186 (3) sentence 4 German Stock Corporation Act shall be considered in connection with any exercise of this authorization under the aforementioned statute.

The Executive Board is authorized to fix all other details of the capital increase and its implementation. The Supervisory Board is authorized to amend the Articles of Incorporation such that they reflect the extent of each capital increase from authorized capital.

The authorized capital as of December 31, 2019, was EUR 4,552,690 (previous year: EUR 4,552,690).

Profits for the year eligible for distribution were determined based on the net retained profits of Softing AG pursuant to the German Commercial Code.

Contingent Capital

The Executive Board is authorized to contingently increase the Company's share capital with the approval of the Supervisory Board by up to EUR 4,552,690.00 by issuing up to 4,552,690 new no-par bearer shares (Contingent Capital 2018). The contingent capital increase will serve the granting of option rights or obligations to the holders of warrants arising from bonds with warrants under the terms of the respective options or the granting of conversion rights or obligations to the holders of convertible bonds under the terms of the respective convertible bonds issued by the Company up to May 8, 2023 in accordance with the resolution of the General Shareholders' Meeting on May 9, 2018. The new shares will be issued at the respective option or conversion price to be determined in accordance with the above-mentioned authorization resolution. The contingent capital increase will be implemented only in the event that bonds with warrants or convertible bonds are issued and only to the extent that the holders of the bonds with warrants or the convertible bonds make use of their option or conversion right or the holders of bonds obligated to convert or to exercise the option fulfill this obligation and the contingent capital is needed in accordance with the terms and conditions of the bond with warrants or the convertible bond. The new shares issued on the basis of the exercise of the option or conversion right or the fulfillment of the conversion or option obligation have a share in the profit from the beginning of the financial year in which they arise. The Executive Board is authorized, with the approval of the Supervisory Board, to stipulate the further details of the implementation of the contingent capital increase. Said authority was not exercised to date.

Capital Reserves

The capital reserves contain the premium on the issue of shares less transaction costs. The capital increase against contributions in kind in 2018 resulted in a premium of EUR 11,977 thousand less transaction costs of EUR 80 thousand offset against equity.

Retained Earnings

Retained earnings include the accumulated, undistributed profits of the companies included in the consolidated financial statements. A dividend of EUR 0.13 per share (previous year: EUR 0.13) was paid out in the 2019 financial year for 2018. The Executive Board proposes a dividend of EUR 0.04 per share for financial year 2019. This corresponds to a total dividend of EUR 364 thousand.

Retained earnings also include the differences from the currency translation and the associated deferred taxes of transactions made by foreign subsidiaries, changes in the fair value of financial instruments not recognized through profit or loss, and the remeasurements from pension obligations and their deferred tax effects not recognized through profit or loss.

The other comprehensive income is shown in the statement of comprehensive income.

Non-controlling Interests

The non-controlling interests in the amount of EUR 269 thousand (previous year: EUR 145 thousand) concern other shareholders in Austria and China.

Treasury Shares

No treasury share transactions took place in 2019;

As of the reporting date, Softing AG did not hold any treasury shares.

The changes in consolidated equity including the changes from acquisitions are presented in the "Consolidated Statement of Changes in Equity" 2019/2018.

13. PENSIONS

This item concerns the partially reinsured and defined benefit pension commitments granted to the three former members and one current member of the Executive Board, which provide for lifelong retirement and widow's benefits, as well as orphans' benefits in the event one or both parents are lost. There is a variable commitment in addition to a fixed commitment. The amount of benefits is determined individually. The liabilities in connection with the pension plans are determined annually by independent experts in accordance with the projected unit credit method. The capitalized value of the reinsurance cover of EUR 3,210 thousand (previous year: EUR 3,099 thousand) was offset against pension provisions. Actuarial remeasurements were recognized immediately in retained earnings in accordance with IAS 19.120. The cumulative gains and losses reported in this item were EUR –2,012 thousand as of December 31, 2019 (previous year: EUR –1,307 thousand).

The pensions under variable commitments increase or decrease in line with the change in the Consumer Price Index for Germany (2015=100). It rose from 103.8 points to 105.3 points on average between 2018 and 2019.

The actuarial assumptions on which the calculation is based are summarized in the following table:

Basis of calculation	Dec. 31, 2019 %	Dec. 31, 2018 %
Assumed interest rate	0.9	1.8
Salary trend	0.0	0.0
Expected rate of pension increase	1.1	1.1
Anticipated employee turnover rate	0.0	0.0
Biometric basis of calculation	**Mortality Tables 2018 G / Prof. Dr. Heubeck**	

Development of the obligation	2019 EUR (in thsds.)	2018 EUR (in thsds.)
DBO as of January 1	5,239	5,174
Service cost	143	145
Interest expense	93	81
Pension payments to pensioners	–174	–174
Expected DBO as of December 31	**5,301**	**5,227**
Remeasurements, of which	994	12
Effects from adjusting the assumed interest rate	880	0
Effects from changes in trend assumptions	116	0
Effects from experience adjustments	–2	12
Actual DBO as of December 31	**6,294**	**5,239**

The average remaining life of the obligation is 17 years (previous year: 16.2 years).

Calculation of annual income and annual expense	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Interest income	56	48
Interest expense	–93	–81
Service cost	–143	–145
Annual expense	**–180**	**–178**

Development of plan assets	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Plan assets as of January 1	3,099	2,992
Payment from plan assets	–93	–92
Payments into the employer’s plan assets	107	107
Interest earned from plan assets	56	48
Adjustment of plan assets	40	44
Plan assets as of December 31	**3,210**	**3,099**

Only reinsurance policies not quoted on an active market are taken out to hedge portions of the obligations arising from pensions. Each of these policies relates directly to the underlying pension commitment. The expected contributions to plan assets amount to EUR 107 thousand in 2020 (previous year: EUR 107 thousand).

Reconciliation with the statement of financial position	Dec. 31, 2019 EUR (in thsds.)	Dec. 31, 2018 EUR (in thsds.)
Present value of the defined benefit obligations (DBO)	6,294	5,239
Fair value of the external plan assets	3,210	3,099
Provision	**3,085**	**2,140**

Development of the provision	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Provision as of January 1	2,140	2,181
Service cost	143	145
Net interest expense/income	37	33
Remeasurements	954	32
Payments made	–82	–81
Payments into plan assets	–107	–107
Provisions as of December 31	**3,085**	**2,140**

The sensitivity of the overall pension obligation to changes in the weighted main assumptions is:

	Effect on the obligation	
	Change in the assumption –	Change in the assumption +
Relative effect of interest rate change on DBO 2019	0.25 %	0.25 %
	4.5 %	–4.2 %
Relative effect of interest rate change on DBO 2018	0.25 %	0.25 %
	4.1 %	–3.9 %

	Effect on the obligation	
	Change in the assumption –	Change in the assumption +
Relative effect of a change in the pension trend on DBO 2019	0.25 %	0.25 %
	–1.2 %	1.2 %
Relative effect of a change in the pension trend on DBO 2018	0.25 %	0.25 %
	–1.4 %	1.4 %

No sensitivity analysis based on life expectancy was presented because participants in question include only three former beneficiaries and one active beneficiary.

The sensitivities were determined by changing one parameter while leaving all other parameters unchanged.

Pension payments of EUR 172 thousand (previous year: EUR 173 thousand) are expected for the 2020 financial year. Contributions to the plan are expected to be EUR 107 thousand (previous year: EUR 107 thousand), and interest income is expected to be EUR 29 thousand (previous year: EUR 56 thousand).

14. LONG-TERM BORROWINGS AND OTHER NON-CURRENT LIABILITIES

In 2019, the long-term borrowings were renegotiated with the principal banks, the long-term existing debt from the purchase price financing of OLDI Online Development Inc. in the amount of EUR 1,740 thousand was extinguished and new loans totaling EUR 14,000 thousand were taken out; these loans were defined as redemption-free for two years and will subsequently be repaid on a straight-line basis/quarterly within five years. In the course of obtaining these loans, Softing AG agreed to comply with financial covenants entailing an obligation to maintain certain financial ratios. The financial covenants require Softing to maintain a specified equity ratio and not exceed a maximum debt-to-equity ratio for the Group. During the financial year, Softing AG had no problem fulfilling the covenant regarding equity ratio and debt-to-equity ratio.

On the first-time application of IFRS 16 as of January 1, 2019, additional lease liabilities of EUR 4,695 thousand were recognized in other current and non-current liabilities. Lease liabilities >1 year amounted to EUR 3,379 thousand at this date, while lease liabilities <1 year amounted to EUR 1,316 thousand. As of the balance sheet date, the lease liabilities had a carrying amount of EUR 3,502 thousand, divided into non-current lease liabilities of EUR 2,228 thousand and current lease liabilities of EUR 1,275 thousand.

In financial year 2019, other financial lease liabilities were repaid in the amount of EUR 1,554 thousand and interest of EUR 163 thousand on leases was paid. Total cash outflow for leases including variable lease payments and payments in connection with current leases, as well as leases of low-value assets, came to EUR 1,721 thousand in financial year 2019. As of the balance sheet date, EUR 3,776 thousand was recognized for future cash outflows.

Possible future cash outflows of EUR 1,639 thousand were not included in the lease liability because it is not reasonably certain that the lease will be extended (or not terminated). As of December 31, 2019, there were no cash outflows for leases that the Softing Group had entered into as the lessee as of the balance sheet date but which have not yet commenced.

As of December 31, 2019, the Group was bound by current leases for which the corresponding exemption option was utilized. The total obligation as of this date approximates the expense incurred in the financial year.

The rights of use to leased assets are recognized under property, plant and equipment with carrying amounts of EUR 3,438 thousand.

Lease liabilities resulting in particular from property leases and vehicle leases are repaid in monthly installments through the end of the lease term.

In the financial year, expenses for current leases amounted to EUR 3 thousand and expenses for leases of low-value assets stood at EUR 1 thousand.

The outlay for variable lease payments not included in the measurement of the lease liabilities was EUR 0 thousand in the financial year.

15. TRADE PAYABLES

The trade payables of EUR 6,476 thousand (previous year: EUR 6,086 thousand) exclusively concern current payables toward non-Group third-parties for supplied goods and services. All trade payables are due and payable within one year.

16. PROVISIONS

The other provisions are recognized for all other contingent liabilities and risks of the Softing Group toward third parties. They are recognized only if utilization is probable and the amount of the obligation can be estimated reliably. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

	As of Jan. 01, 2019 EUR (in thsds.)	Use EUR (in thsds.)	Reversal EUR (in thsds.)	Addition EUR (in thsds.)	As of Dec. 31, 2019 EUR (in thsds.)
Warranties	109	103	0	87	93
Other	66	45	21	8	8
Total	**175**	**148**	**21**	**94**	**101**

This exclusively comprises current provisions that are estimated to become due within one year.

17. INCOME TAX LIABILITIES

In the financial year just ended, liabilities of EUR 1,255 thousand (previous year: EUR 1,407 thousand) were recognized for expected tax payments. The Group’s taxes are described in detail in section D9.

18. SHORT-TERM BORROWINGS

Short-term borrowings amount to EUR 1,581 thousand, which in the financial year relates to the utilization of overdraft lines of credit.

Short-term borrowings as of December 31, 2018 in the amount of EUR 6,215 thousand consisted of the current portion of the loan to finance the purchase price of OLDI Online Development Inc. (EUR 2,722 thousand), the current portion of a loan from a former shareholder (EUR 354 thousand) and the remaining amount (EUR 3,139 thousand) from the short-term use of overdraft lines of credit. The loan to finance the purchase price, the loan from a former shareholder and a portion of the overdraft lines were repaid in 2019.

19. OTHER CURRENT FINANCIAL LIABILITIES

	Dec. 31, 2019 EUR (in thsds.)	Dec. 31, 2018 EUR (in thsds.)
Wages and salaries payable	4,660	4,285
Obligation to pay into capital reserves for the acquired equity interest	1,495	0
Leasing liabilities < 1 year	1,275	0
Other	262	237
	7,691	**4,522**

20. CURRENT NON-FINANCIAL LIABILITIES

	Dec. 31, 2019 EUR (in thsds.)	Dec. 31, 2018 EUR (in thsds.)
Liabilities related to social security	515	468
Other tax liabilities primarily (sales and wage tax)	1,273	884
Other	149	197
	1,937	**1,549**

D. NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. REVENUE

Revenue by regions:	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Germany	31,035	28,897
USA	34,090	32,258
Other countries	25,943	22,735
	91,068	**83,890**

Revenue by products and services:	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Products	82,742	75,813
Services	8,326	8,077
	91,068	**83,890**

Revenue recognized at a point in time/over time:	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Point in time	82,742	75,813
Of which products:	82,742	75,813
Of which services:	0	0
Over time	8,326	8,077
Of which products:	0	0
Of which services:	8,326	8,077
	91,068	**83,890**

Revenue includes a change of EUR +152 thousand from customer-specific construction contracts that was recognized over time using the cost-to-cost method. Here, the Group estimates the proportion of the total of services to be provided that have already been performed by the reporting date.

Revenue from construction contracts amounted to EUR 5,371 thousand (previous year: EUR 4,821 thousand).

In 2019, one customer in the Industrial segment who was responsible for revenue of EUR 13,342 thousand and 15% of consolidated revenue exceeded the revenue threshold of 10%. In 2018, no customer exceeded the revenue threshold of 10% of Group revenue.

For detailed information on operating segments, we refer to the segment reporting (see chapter E1).

2. OTHER OWN WORK CAPITALIZED

Other own work capitalized concerns costs for/investments in the development of new software products. Most of these costs are personnel costs of the development departments and the associated costs.

3. OTHER OPERATING INCOME

The other operating income comprises the following items:	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Income from exchange differences	445	893
Revenue from the reduction of loss allowances	4	3
Insurance compensation payment	18	9
Income from receivables written off	2	16
Recharged costs	29	165
Other income	257	357
	755	**1,443**

4. COST OF MATERIALS

	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Purchase of components and products	37,842	35,527
Third-party services	1,469	943
	39,311	**36,471**

5. STAFF COSTS

	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Current salaries	27,456	26,699
Social security and retirement benefit costs	4,452	4,343
Profit-sharing, royalties	3,202	2,227
Use of company cars by employees	–4	4
Other temporary workers	334	167
	35,441	**33,440**

The statutory pension scheme in Germany is treated as a defined contribution scheme.

Expenses recognized for the statutory pension scheme total EUR 1,434 thousand (previous year: EUR 1,410 thousand). The service cost for pension provisions amounts to EUR 143 thousand (previous year: EUR 145 thousand).

6. DEPRECIATION, AMORTIZATION AND IMPAIRMENT OF INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Depreciation, amortization and impairment losses are listed in detail in the statement of changes in non-current assets (appendix to the notes to the consolidated financial statements). No impairment losses or reversals of impairments were recognized in 2019. The increase in depreciation and amortization compared with the previous year is largely due to the first-time application of IFRS 16.

7. OTHER OPERATING EXPENSES

The other operating expenses are as follows:	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Employee-related costs	304	211
Infrastructure costs	1,899	3,020
Distribution costs	3,532	3,424
Consulting costs	1,286	1,499
Third-party services	953	612
Capital market costs	375	402
Contributions and fees	132	113
Operating costs	455	462
Exchange differences	592	416
Other product development expenses	562	356
Other costs	383	314
	10,474	**10,829**

The other operating expenses (infrastructure costs) in the previous year contained rental and lease expenses for buildings and cars of EUR 1,586 thousand. The significant reduction in these costs is due to the first-time application of IFRS 16 in the reporting period.

8. INTEREST INCOME/INTEREST EXPENSE

The financial result comprises interest expense, interest income and other financial income/ expenses.

The total interest expense breaks down as follows:	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Other interest expense		
Interest from unwinding of discounts on provisions	93	81
Interest on loans	171	123
Other interest	9	27
Total other interest expense	273	231
Interest from lease accounting under IFRS 16	163	0
	436	**231**

Interest income comprises the following items:	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Interest income from pension provisions	56	48
Other interest	1	22
	57	**70**

The other financial income/financial expenses of EUR 322 thousand (previous year: EUR 689 thousand) relate to currency fluctuations of a USD loan to the American holding company, which is secured by repayment arrangements.

9. INCOME TAXES

The income tax expense breaks down as follows:	2019 EUR (in thsds.)		2018 EUR (in thsds.)	
Deferred taxes on temporary differences	–660		–534	
Deferred taxes on tax loss carryforwards	–559		192	
Total deferred tax expense		–1.219		–342
Current tax expense/tax income, financial year	–102		–747	
Current tax expense/tax income from previous years	4		–188	
Total current tax expense/tax income		–98		–935
		–1,317		**–1,277**
Effective tax rate		31.02 %		27.72 %

The increase in the effective tax rate is due in particular to the recognition of deferred tax assets on losses in Liechtenstein at a tax rate of 12.50% compared with the Group tax rate of 28.08%.

Deferred taxes are recognized for temporary differences between the amounts recognized for financial reporting purposes and the amounts recognized for tax purposes, and for any differences arising from uniform measurement and consolidation within the Group. Deferred taxes are determined based on the applicable country-specific tax rates. The underlying domestic tax rate, which has not changed compared to the previous year, is determined as follows:

	2019 %	2018 %
Corporation tax including solidarity surcharge	15.83	15.83
Trade tax rate	12.25	12.25
	28.08	**28.08**

The deferred tax assets on tax loss carryforwards in Germany and abroad were recognized because in the Group's opinion the loss carryforwards are not impaired in the amount recognized due to positive tax forecasts and a positive market outlook as of the balance sheet date.

The tax loss carryforwards of the individual companies are as follows:

	Dec. 31, 2019 EUR (in thsds.)	Dec. 31, 2018 EUR (in thsds.)	Usable until
Softing AG (trade tax)	3,446	4,828	Unlimited
Softing AG (corporation tax)	2,625	3,917	Unlimited
Softing Singapore	689	2,695	Unlimited
Softing North America Holding (Federal/State)	673	0	Unlimited
GlobalmatiX AG	1,140	326	Unlimited
Buxbaum Automation GmbH	227	258	Unlimited

Of the total tax loss carryforwards in the amount of EUR 8,800 thousand (previous year: EUR 10,553 thousand), EUR 8,573 thousand (previous year: EUR 10,295 thousand) was recognized on deferred tax assets. No deferred tax assets were recognized for tax loss carryforwards of EUR 227 thousand (previous year: EUR 258 thousand).

The current income tax expense is derived as follows from the expected tax expense. As in the previous year, the calculation for the Group is based on the tax rate applicable for Softing AG, as this company is responsible for the main part of the Group's business.

	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Earnings before taxes	4,246	4,609
Anticipated tax expense (28.08 %)	1,192	1,294
Tax additions and deductions	22	–176
Different tax rates	234	19
Deferred taxes, temporary differences, loss carryforwards	–126	–35
Taxes, previous years	6	173
Other	–11	2
Current tax expense shown in the income statement	**1,317**	**1,277**

Deferred tax assets and deferred tax liabilities are allocable to the following items:

	2019 EUR (in thsds.)		2018 EUR (in thsds.)	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	110	6,471	97	6,055
Pension provision	910		643	
(Of which recognized directly in equity)	(785)		(506)	
Currency translation (recognized directly in equity)		918		829
Trade receivables	84	295	110	14
Contract assets/contract liabilities	0	0	0	183
Other provisions	–24		105	
Current assets	5		9	
Deferred income	87		0	
Future tax benefits from loss carryforwards	1,139		1,655	
Netting	–1,524	–1,524	–1,854	–1,854
Gross amount/carrying amount	**787**	**6,160**	**765**	**5,227**

E. OTHER DISCLOSURES

1. SEGMENT REPORTING

Segment reporting aims to furnish information on the Group's material divisions. The segmentation follows the main product groups and applications. The activities of the Group are segmented in accordance with IFRS 8 using the management approach. Segmentation is based on the Group's internal reporting and organizational structure, taking into account the different risks and income structures of each individual division. The corporate divisions are shown in the following table in accordance with IFRS 8.

Segmentation	Industrial		Automotive		IT Networks		Holding, other consolidation		Total	
	2019 EUR (in thsds.)	2018 EUR (in thsds.)	2019 EUR (in thsds.)	2018 EUR (in thsds.)	2019 EUR (in thsds.)	2018 EUR (in thsds.)	2019 EUR (in thsds.)	2018 EUR (in thsds.)	2019 EUR (in thsds.)	2018 EUR (in thsds.)
External sales	58,268	52,793	22,001	18,200	10,799	12,897			91,068	83,890
Depreciation/ amortization	2,870	2,109	3,116	2,042	932	452	902	334	7,820	4,937
Segment result (operating EBIT)	4,191	4,242	109	–1,117	–220	407			4,080	3,532
Segment result (EBIT)	4,403	3,210	417	633	–517	238			4,303	4,081
Segment assets	47,701	45,537	39,836	35,634	14,177	12,071	15,083	6,582	116,796	99,824
of which IFRS 16	1,549		731		344		814		3,438	
Segment liabilities	13,368	9,941	11,042	7,996	2,258	2,005	20,524	11,482	47,192	31,424
of which IFRS 16	1,589		744		349		820		3,502	
Capital expenditure	2,770	1,084	5,657	20,529	1,804	1,215	267	347	10,498	23,176

Revenue from contracts with customers recognized over time	Industrial		Automotive		IT Networks		Holding, other consolidation		Total	
	2019 EUR (in thsds.)	2018 EUR (in thsds.)	2019 EUR (in thsds.)	2018 EUR (in thsds.)	2019 EUR (in thsds.)	2018 EUR (in thsds.)	2019 EUR (in thsds.)	2018 EUR (in thsds.)	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Over time	55,388	50,268	16,555	12,648	10,735	12,897	0	0	82,678	75,813
Point in time	2,880	2,525	5,446	5,552	64	0	0	0	8,390	8,077
Total	**58,268**	**52,793**	**22,001**	**18,200**	**10,799**	**12,897**	**0**	**0**	**91,068**	**83,890**

The column entitled "Other consolidation" comprises the business activities of Softing AG's centralized units. All of their costs are allocated to the respective operating segments that caused the expenses to be incurred. This also includes an asymmetrical distribution of depreciation and amortization of the holding company's non-current assets. Due to different technologies and customer groups, there is no significant intersegment revenue.

Earnings before interest and taxes (EBIT) and the resulting operating EBIT of EUR 4,133 thousand (previous year: EUR 3,532 thousand) are the key parameters for evaluating and managing a segment's earnings. Operating EBIT corresponds to EBIT shown in the consolidated income statement adjusted for capitalized development costs of EUR 5,511 thousand (previous year: EUR 4,425 thousand) and their amortization of EUR 3,328 thousand (previous year: EUR 2,105 thousand),

and depreciation and amortization from purchase price allocation of 2,034 thousand (previous year: EUR 1,769 thousand). With the exception of the write-downs, other income and expense items are not regularly reviewed at the segment level by the responsible corporate department, given their secondary importance to the Group, and thus are not presented by segment.

Geographical segments:	Revenue		Non-current assets		Additions to non-current assets	
	2019 EUR (in thsds.)	2018 EUR (in thsds.)	2019 EUR (in thsds.)	2018 EUR (in thsds.)	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Germany	31,035	28,897	31,246	25,819	8,334	6,390
USA	34,091	32,258	20,853	20,141	311	112
Other countries	25,942	22,735	17,765	16,254	1,853	16,674
Total	**91,068**	**83,890**	**69,864**	**62,215**	**10,498**	**23,176**

The regional allocation of revenue is based on customer address.

Segment information is based on the same accounting principles as the consolidated financial statements. The segments are assessed on the basis of operating results, with financing and tax effects not taken into account. For a reconciliation to earnings before taxes, please refer to the consolidated income statement.

With regard to information on key customers, please refer to the notes under D.1.

2. SEGMENT ALLOCATION OF PRODUCTS

Industrial Automation

Products and services for integrating communication functions in automation systems and devices, specifically for standards such as PROFIBUS, PROFINET, EthernetIP, EtherCAT, Powerlink, Modbus, CAN, CANopen, DeviceNet, FOUNDATION Fieldbus, (wireless) HART.

Interface cards, integration modules, chip solutions and communications software (stacks) for implementing bus links in systems and devices used in process and production automation;

Gateways for linking fieldbuses to Ethernet-based communication systems and groupwide planning and administration systems;

Tools for configuring networks, as well as toolkits for integrating configuration functions into the engineering systems of automation system manufacturers;

Tools and devices for signal and protocol analysis of industrial communication networks; and

OPC servers, OPC middleware and development tools for OPC Clients and Servers (Toolkits);

Automotive Electronics

Vehicle adapters and data bus interfaces
Interfaces for CAN, K-Line, LIN, Ethernet and FlexRay data bus systems in different form factors with a variety of PC connections such as USB, WLAN, Bluetooth, PCI, PCIexpress, PC/104 and PCMCIA. Programming interfaces compliant with ISO and other standards as well as customized adaptations. Special solutions for development/testing, production and service.

Diagnostic Tools:
Diagnostic solutions for development/testing, production and service. Editors for diagnostic data. Diagnostic servers for the real-time processing of diagnostic data based on ISO and customer standards. Customized and proprietary analytic tools for diagnostic data. ODX and OTX solutions play an important role in this context.

Test Automation:
Software interfaces for connecting diagnostic servers to production systems. Editing and runtime systems for test sequences with connections to numerous third-party products. Customized test stations for development, quality assurance and production. Solutions for the flash programming of control units. Devices for simulating electronic control units and rest bus systems.

Customized Development:
Customer-specific software and hardware developments for data communication/diagnosis/test systems.

Resident Engineering:
On-site customer support in the form of consultation, project management and project participation as well as development activities in the fields of data communication, diagnosis, trade fairs and test systems.

Measurement Technology:
Softing measurement technology (SMT) represents a unique system whose development was driven entirely by automotive developments. This results in a broad range of applications for test rigs or "raw" mobile applications in vehicle testing. Application of this comprehensive measurement and automation system is not limited to automotive technology at all; indeed, it is well suited for applications in any industrial environment.

IT Networks

Diagnostic devices for Ethernet networks in the automation industry and for the diagnosis of copper and optical fiber networks in data centers and office installations.

3. STATEMENT OF CASH FLOWS

The statement of cash flows represents the consolidated cash flows of the consolidated companies; it was determined indirectly.

The cash and cash equivalents shown in the statement of cash flows comprise cash on hand and bank balances.

Liabilities from financing activities at Softing include the short-term and long-term borrowings presented separately in the statement of financial position and, since 2019, current and non-current lease liabilities in accordance with IFRS 16. The latter are presented in the statement of financial position under other current and non-current financial liabilities.

For the reconciliation of the change in liabilities from financing activities, Softing does not divide the corresponding amounts by maturity. The presentation of the reconciliation was changed as a result of the adoption of IFRS 16 and is shown below.

Changes in liabilities from financing activities	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Long-term borrowings as of Jan. 1	1,976	4,153
Short-term borrowings as of Jan. 1	6,215	4,788
Total borrowings as of Jan. 1	**8,191**	**8,941**
Non-current lease liabilities as of Jan. 1 from first-time application of IFRS 16	3,379	n/a
Current lease liabilities as of Jan. 1 from first-time application of IFRS 16	1,316	n/a
Total lease liabilities as of Jan. 1 from first-time application of IFRS 16	**4,695**	**n/a**
Total liabilities from financing activities as of Jan. 1	**12,886**	**8,941**
Changes from financing cash flows;	4,899	−1,004
Change due to non-cash foreign currency translation	−22	−77
Change due to full consolidation of GlobalmatiX	0	383
Other changes		
Changes due to additions and modifications from leases	156	n/a
Miscellaneous other changes	1,171	−129
Total liabilities from financing activities as of Dec. 31	**19,090**	**8,191**
Of which:		
Long-term borrowings as of Dec. 31	14,006	1,976
Short-term borrowings as of Dec. 31	1,581	6,215
Total borrowings as of Dec. 31	**15,587**	**8,191**
Non-current lease liabilities as of Dec. 31	2,228	n/a
Current lease liabilities as of Dec. 31	1,275	n/a
Total lease liabilities as of Dec. 31	**3,503**	**n/a**

4. EARNINGS PER SHARE IAS 33

		2019	2018
Consolidated profit attributable to shareholders of Softing AG (basic = diluted consolidated profit)	EUR (in thsds.)	2,809	3,332
Non-controlling interests	EUR (in thsds.)	120	−15
Consolidated profit	**EUR (in thsds.)**	**2,929**	**3,347**
Weighted average number of shares			
Basic	Number	9,105,381	8,771,682
Diluted	Number	9,105,381	8,771,682
Basic earnings per share	EUR	0.31	0.38
Diluted earnings per share	EUR	0.31	0.38

The change in earnings per share is due on the one hand to the higher average number of shares and on the other hand to an increased tax burden. As in the previous year, no options rights exist as of December 31, 2019, which could influence diluted earnings per share in the future.

5. RELATED PARTIES

Besides the companies included in the consolidated financial statements, the members of the Executive Board and of the Supervisory Board are considered related parties of the Softing Group as defined in IAS 24, both in their function as members of corporate boards and, in some cases, as shareholders.

Furthermore, Helm Trust Company Limited, St. Helier, Jersey, Channel Islands, is a major shareholder and therefore a related party of the Softing Group. This company informed us that its share of voting rights in Softing AG amounts to 22.43% (2,042,302 voting rights). All of these voting rights are attributable to it. The attributed voting shares are held by the following entities controlled by Helm Trust Company Limited:

- Trier Familienstiftung
- Trier Asset Management GmbH
- Trier Vermögensverwaltung GmbH & Co. KG

The dividend payment to the major shareholder amounted to EUR 265 thousand in the 2019 financial year (previous year: EUR 265 thousand).

The key management personnel at Softing in accordance with IAS 24 consists of the Executive Board and the Supervisory Board. We refer to chapters E10 and E11 for information regarding the remuneration of the Supervisory Board and the Executive Board.

The Chairman of the Company's Executive Board, Dr. Wolfgang Trier, held 151,826 shares in Softing AG as of December 31, 2019 (previous year: 122,221).

The Executive Board member Ernst Homolka held 4,900 shares in Softing AG as of December 31, 2019 (previous year: 1,800 shares).

The Supervisory Board member, Dr. Klaus Fuchs, held 278,820 shares in Softing AG as of December 31, 2019 (previous year: 278,820).

The Supervisory Board member, Andreas Kratzer, held 10,155 shares in Softing AG as of December 31, 2019 (previous year: 10,155).

Dividends totalling EUR 17 thousand (previous year: EUR 16 thousand) were paid to key management personnel in the financial year under review, in each case based on their equity interest held at the time of dividend payment.

The Supervisory Board member Dr. Fuchs received a total fee of EUR 66 thousand (previous year: EUR 68 thousand) for providing consulting services in connection with the coordination of Softing IT Networks. In addition, the Supervisory Board member Mr. Kratzer received EUR 20 thousand (previous year: EUR 0 thousand) for investor relations consulting services. There were no open positions from these transactions on the balance sheet date.

6. CONTINGENT LIABILITIES

As of the balance sheet date, the subsidiaries have provided EUR 12,040 thousand (previous year: EUR 12,116 thousand) in guarantees to collateralize loans of Softing AG and overdraft lines of credit of Softing AG. Most of the guarantees were provided in connection with the refinancing carried out in 2019.

7. OTHER FINANCIAL OBLIGATIONS

As of the balance sheet date, the Company had incurred purchase commitments in the amount of EUR 5,428 thousand under long-term contracts (previous year: EUR 4,979 thousand). As in the previous year, there were no purchase commitments for intangible assets and property, plant and equipment as of the balance sheet date.

Until 2018, there were also obligations under long-term rental and lease agreements as shown in the table. These obligations stemmed primarily from contracts related to buildings, passenger cars and office equipment. IFRS 16 has been applied from 2019. Please see the disclosures on lease accounting in section C 14 for more details.

	2018 EUR (in thsds.)
< 1 year	1,647
1–5 years	3,350
> 5 years	421
Total	**5,418**

8. DISCLOSURE OF THE CARRYING AMOUNTS OF THE INDIVIDUAL CATEGORIES OF FINANCIAL INSTRUMENTS ACCORDING TO IFRS 7

Fair Values of Financial Instruments

The following table shows both the carrying amounts and the fair values of all financial instruments recognized in the consolidated financial statements that fall within the scope of IFRS 7. Almost all of the fair values correspond to the carrying amounts because, with the exception of cash, the financial instruments recognized almost solely comprise non-derivative current receivables and liabilities. As in the previous year, there were no financial instruments as of December 31, 2019, for which IFRS 7 is not applicable.

EUR (in thsds.)	Categories acc. to IFRS 9	Carrying amount	Measure-ment acc. to IFRS 9			Fair value
Financial assets by class		Dec. 31, 2019	Amortized cost	Fair value OCI	Fair value PL	Dec. 31, 2019
Non-current financial assets						
Equity investments	FVTPL	1,500			1,500	1,500
Current financial assets						
Trade receivables	AC	15,380	15,380			15,380
Current assets	AC	25	25			25
Cash and cash equivalents	AC	14,917	14,917			14,917
Financial liabilities by class						
Non-current financial liabilities						
Long-term borrowings	FLAC	14,006	14,006			13,750
Other non-current financial liabilities		2,259				
of which liabilities from lease accounting	n/a	2,228	n/a			
of which long-term repayment obligation	FLAC	31	31			31
Current financial liabilities						
Trade payables	FLAC	6,476	6,476			6,476
Short-term borrowings	FLAC	1,581	1,581			1,638
Other current financial liabilities		7,691				
of which liabilities from lease accounting	n/a	1,275	n/a			
of which current purchase price obligation	FVTPL	1,495			1,495	1,495
of which miscellaneous other current financial liabilities	FLAC	4,921	4,921			4,921

Carrying amount by category	Category	Dec. 31, 2019 EUR (in thsds.)
Financial assets measured at amortized cost	AC	30,322
Financial assets at fair value through profit or loss	FVTPL	1,500
Financial liabilities measured at amortized cost	FLAC	27,015
Financial liabilities at fair value through profit or loss	FVTPL	1,495

EUR (in thsds.)	Categories acc. to IFRS 9	Carrying amount	Measure-ment acc. to IFRS 9			Fair value
Financial assets by class		Dec. 31, 2018	Amortized cost	Fair value OCI	Fair value PL	Dec. 31, 2018
Current financial assets						
Trade receivables	AC	13,682	13,682			13,682
Current assets Other financial assets	AC	71	71			71
Cash and cash equivalents	AC	9,682	9,682			9,682
Financial liabilities by class						
Non-current financial liabilities						
Long-term borrowings	FLAC	1,976	1,976			1,971
Current financial liabilities						
Trade payables	FLAC	6,086	6,086			6,086
Short-term borrowings	FLAC	6,215	6,215			6,438
Other current financial liabilities	FLAC	4,522	4,522			4,521

Carrying amount by category	Category	Dec. 31, 2018 EUR (in thsds.)
Financial assets measured at amortized cost	AC	23,435
Financial liabilities measured at amortized cost	FLAC	18,798

No further disclosures on the fair value have to be made pursuant to IFRS 7.29a if the carrying amount is a reasonable approximation of fair value.

Financial assets and financial liabilities measured at fair value are allocated to the following levels of the fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs).
- Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2 inputs).
- Unobservable inputs for the asset or liability (Level 3 inputs).

The fair value of the equity interest acquired at the end of December 2019 reflects the corresponding transaction price at the acquisition date and is based on a company valuation, which is allocated to Level 3. Due to the short time span between the transaction and the balance sheet date, it must be assumed that the transaction price is still equivalent to the fair value.

The payment obligation arising from the payment based on the enterprise value is calculated using a formula on the basis of a comparison of Softing's market capitalization at the beginning and end of the financial year and is allocated to Level 2.

The net gains/losses of the respective categories of financial instruments in accordance with IFRS 9 for 2019 and IAS 39 for 2018 are shown in the following overview:

Net gains and losses, 2019 (EUR thsds.)		Interest	Impairment	Currency translation gains/losses	Net gain/loss
From financial assets measured at amortized cost	AC	1	4	–115	–110
From financial liabilities measured at amortized cost	FLAC	–180			–180

Net gains and losses, 2018 (EUR thsds.)		Interest	Impairment	Currency translation gains/losses	Net gain/loss
From financial assets measured at amortized cost	AC	22	–34	1.114	1,102
From financial liabilities measured at amortized cost	FLAC	–150			–150

There were no net gains/losses from the equity interest acquired at the end of December, which is measured at fair value, with changes in fair value recognized in other comprehensive income.

Interest income from financial assets measured at amortized cost totaled EUR 1 thousand in the current period, while interest expense on financial liabilities measured at amortized cost came to EUR 180 thousand. In the previous year, interest income on loans and receivables had amounted to EUR 22 thousand, while interest expense on financial liabilities measured at amortized cost had stood at EUR 150 thousand.

9. OBJECTIVES AND METHODS OF FINANCIAL RISK MANAGEMENT

Softing AG's capital management aims first and foremost at ensuring that the Company maintains a solid equity ratio to support its business activities. The Group manages its capital structure and makes adjustments, allowing for changes in economic conditions. To maintain or adjust its capital structure, the Group may make repayments of capital to its shareholders or issue new shares. There were no changes in the objectives, guidelines and procedures as of December 31, 2019, and December 31, 2018.

The Group monitors its capital using the equity ratio. But the Executive Board does not define a specific target to that end. The equity ratio in the financial year was 59.6% (previous year: 68.5%).

The capital of Softing AG relevant for controlling purposes encompasses the subscribed capital, the capital reserves, the retained earnings, the equity from unrealized gains and losses and non-controlling interests; it therefore corresponds to the equity of EUR 69,604 thousand (previous year: EUR 68,400 thousand) reported at the balance sheet date. Softing AG funds the development of its business to the greatest extent possible from its own cash flow.

As an internationally operating company, Softing is exposed to a variety of risks in the course of its operations. Therefore, the objective of its financial risk management is to detect all material financial risks early on and to take appropriate measures to protect existing and future success potential.

These risks include currency risks resulting from activities in different currency regions; counterparty credit risks involving non-fulfillment of contractual obligations by contracting parties; interest rate risks, where fluctuations in the market interest rate trigger changes in the fair value of a financial instrument; and interest-related cash flow risks that trigger changes in the future cash flow of a financial instrument because of changes in market interest rates.

To evaluate and take into account such risks, Softing has defined principles through a centralized risk management system that serve to identify and evaluate such risks consistently and systematically. Continual reporting is used by Softing to check compliance with all principles. This enables the Company to identify and analyze risks early on.

There are no major concentrations of risk in the Group.

Please also see the disclosures on risks and opportunities in the management report.

Default Risks

Softing is exposed to default risks if contractual partners fail to meet their obligations. To avoid of risks of this nature, Softing enters into contracts only with contractual partners that have an excellent credit rating. As of the closing dates of December 31, 2019, and December 31, 2018, there was no material counterparty credit risk. While the Executive Board therefore believes the risk of non-fulfillment on the part of its contractual partners to be very low, it cannot completely exclude the risk in the final analysis.

Counterparty credit risks primarily concern trade receivables. Loss allowances are recognized to allow for any discernable counterparty credit risks in connection with individual financial assets. Loss allowances as of December 31, 2019, totaled EUR 250 thousand (previous year: EUR 296 thousand).

Regardless of any existing collateral, the carrying amount of financial assets equals the maximum counterparty credit risk if the contractual partners fail to meet their payment obligations.

Interest Rate Risks

Softing is also exposed to interest rate risks. The assets subject to interest rate fluctuations essentially concern cash and cash equivalents and securities classified as current assets. Bank balances totaling EUR 14,917 thousand (previous year: EUR 9,682 thousand) bear interest of 0.00% (previous year: 0.00%). No material interest rate risks result from subsidiaries' liabilities to banks in the amount of EUR 15,588 thousand (previous year: EUR 8,191 thousand) because these long-term loans in the amount of EUR 14,006 thousand are fixed-interest loans.

An increase of the market interest rate by 50 basis points would have an impact of EUR 8 thousand (previous year: EUR 41 thousand) on interest expense relating to the short-term loans.

Foreign Currency Risk

The Softing Group's foreign currency risk is limited to three currencies: USD, CHF and RON. The foreign currency risk relating to US dollars is hedged naturally, because in the United States and in Singapore (where US dollars are the functional currency), income and expenses are generated/incurred for products. The foreign currency risk associated with the Romanian RON and CHF is minimal because these currencies are linked to the euro, and the agreements with the Romanian subsidiary stipulate euros.

All foreign currency forwards had been settled as of the reporting date. The following sensitivities apply with regard to USD:

In EUR thsd./USD			USD			
Closing rate: USD 1.12			1.24 +10 %	1.01 –10 %	Difference	Difference
Financial assets/liabilities	**USD**	**USD in EUR**			**+10 %**	**–10 %**
Trade receivables	5,734	5,104	4,640	5,672	–464	567
Receivables from affiliated companies	2,614	2,327	2,115	2,585	–212	259
Other current assets	248	221	201	246	–20	25
Cash and cash equivalents	1,591	1,416	1,288	1,574	–129	157
Non-current liabilities	–18,254	–16,249	–14,772	–18,055	1,477	–1,805
Current liabilities	–6,195	–5,515	–5,014	–6,128	501	–613
	14,262	**–12,696**			**1,154**	**–1,411**

Movements in the USD:EUR exchange rate would be reflected mainly in the equity of the Softing Group.

Liquidity Risk

Liquidity risk is the risk that the Group might not have adequate funds to fulfill its payment obligations.

The Group's liquidity requirements are met primarily through its operating business. Softing AG continuously monitors the risk of a potential liquidity bottleneck using its liquidity planning. The Group's goal is to continue meeting its liquidity requirements through its own cash flow.

The Group possesses sufficient liquidity and unused credit lines in the amount of EUR 7,330 thousand to meet its obligations over the next four years in line with its strategic plans. For disclosures on maturities, please see section C.

Cash and cash equivalents at year's end were EUR 14,917 thousand (previous year: EUR 9,682 thousand), accounting for 12.8% (previous year: 9.7%) of the Group's total assets.

The following table shows the financial liabilities of the Group by maturity classes based on the remaining life as of the reporting date and based on the contractually agreed maturity. The amounts shown in the table are not discounted cash flows.

Dec. 31, 2019 (EUR thsd.)	Up to 1 year	2–5 years	More than 5 years
Non-current financial liabilities			
Long-term borrowings		12,606	1,400
Other non-current financial liabilities		2,250	9
of which from lease accounting		2,219	9
miscellaneous other non-current financial liabilities		31	
Current financial liabilities			
Trade payables	6,476		
Short-term borrowings	1,581		
Current financial liabilities	7,691		
of which from lease accounting	1,275		
miscellaneous other current financial liabilities	6,416		

Dec. 31, 2018 (EUR thsd.)	Up to 1 year	2–5 years	More than 5 years
Non-current financial liabilities			
Long-term borrowings		1,976	
Current financial liabilities			
Trade payables	6,086		
Short-term borrowings	6,215		

10. PERSONNEL

The number of employees (exclusively salaried employees) excluding the Executive Board was as follows:

	2019	2018
As of the balance sheet date	407	402
Annual average	404	404
Marketing & Sales	125	115
Research & Development	229	240
Administration & General	42	41
Management	8	8

11. EXECUTIVE BOARD

The following persons were members of the Executive Board of Softing AG in the reporting period:

Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Grünwald, Germany, Chairman of the Executive Board

Mr. Ernst Homolka, Munich, Germany, Executive Board member for Finance and Human Resources

In accordance with the resolution adopted by the General Shareholders' Meeting on May 8, 2018, the remuneration of individual members of the Executive Board is not disclosed until 2022.

Benefits granted EUR (in thsds.)	Total	
	2019	2018
Fixed remuneration	764	746
Fringe benefits	32	32
Total	796	778
One-year variable remuneration	382	243
Multi-year variable remuneration	497	367
One-year remuneration based on enterprise value	483	0
Total	1,362	610
Pension expense	75	63
Total remuneration	2,233	1,451

All remuneration components are deemed to have been received in the financial year. A portion of the total remuneration is presented under other current financial assets at the balance sheet date in the amount of EUR 2,188 thousand (previous year: EUR 3,176 thousand).

The fringe benefits and the pension expense include flat-rate vehicle allowances and the employer contributions to social security and contributions to pensions.

Remuneration based on the enterprise value consists of a current variable remuneration component paid in cash. Here, the Executive Board receives a pro-rata share of any increase in market capitalization during Softing AG's financial year. The remuneration component is redefined each year. A payment obligation only arises if the increase in the enterprise value exceeds a predefined rate of increase. If the market capitalization decreases or falls below the rate of increase, the entitlement will expire without compensation. The payment obligation is calculated using a formula on the basis of a comparison of Softing's market capitalization at the beginning and end of the financial year. Staff costs were recognized in the amount of the fixed payment obligation as of the balance sheet date. The obligation had not yet been paid out by the balance sheet date and is reported under financial liabilities.

The total remuneration must be classified as short-term in accordance with IAS 24.17.

Furthermore, service cost of EUR 143 thousand (previous year: EUR 145 thousand) was recognized.

A D&O insurance with a deductible of 10% has been taken out for the members of the Executive Board.

The Executive Board member also holds the Company's key central positions.

An agreement with one member of the Executive Board gives him the right to terminate his employment for cause if at least one outside shareholder or shareholder groups acting in concert reaches 1.4 million voting shares through possession or attribution. If this Executive Board member exercises this right to terminate his employment for cause, he is entitled to compensation equaling approximately two annual salaries.

Pension obligations for former members of the Executive Board as of December 31, 2019 totaled EUR 3,078 thousand (previous year: EUR 2,922 thousand). The total remuneration of former members of the Executive Board amounted to EUR 182 thousand (previous year: EUR 174 thousand).

12. SUPERVISORY BOARD

The following persons were members of the Supervisory Board of Softing AG in the 2019 financial year:

Dr. Horst Schiessl, attorney at law, Munich, Germany (chairman)
Dr. Klaus Fuchs, graduate computer scientist and graduate engineer, Helfant, Germany (deputy chairman)
Andreas Kratzer, certified public accountant, Zurich, Switzerland

Dr. Schiessl is also a member of the supervisory board and advisory board of the following companies:
Baader Bank AG, Unterschleißheim, Germany (chairman)
Dussmann Stiftung & Co. KGaA, Berlin, Germany (member of the Supervisory Board)
Dussmann Stiftung, Berlin, Germany (member of the foundation council)
Dussmann Stiftung & Co. KG, Berlin, Germany (member of the advisory board)
Deutsche Mittelstandsservice AG, Bruckmühl, Germany (chairman)

Dr. Fuchs did not hold any offices on other supervisory boards.

Mr. Andreas Kratzer is also a member of the Board of Directors of:
Lysys AG Baar, Switzerland (Board of Directors)

Each member of the Supervisory Board receives a fixed remuneration of EUR 10,000 for each full financial year of service on the Supervisory Board. In addition, each member receives variable remuneration amounting to 0.5% of Group EBIT before variable Supervisory Board remuneration. The chairman receives 200% of the fixed and variable amount, the deputy chairman 150%.

Remuneration for the members of the Supervisory Board in the reporting period totaled EUR 144 thousand (previous year: EUR 139 thousand) and is comprised as follows:

EUR (in thsds.)	Fixed		Variable		Total	
	2019	2018	2019	2018	2019	2018
Dr. Horst Schiessl (chairman)	20	20	44	42	64	62
Dr. Klaus Fuchs	15	15	33	31	48	46
Andreas Kratzer	10	10	22	21	32	31

The total remuneration is presented under other current financial assets at the balance sheet date in the amount of EUR 144 thousand (previous year: EUR 139 thousand).

13. AUDITOR'S FEES

The following expenditure (including expenses) was incurred in the financial year just ended for services provided by the 2019 auditor, Rödl & Partner GmbH (2018: PricewaterhouseCoopers GmbH).

	2019 EUR (in thsds.)	2018 EUR (in thsds.)
Audit of annual financial statements	119	185
	119	**185**

14. EVENTS AFTER THE REPORTING PERIOD

At the end of the year, the Group acquired an equity interest of less than 10% in a start-up company in the Automotive segment. The obligation to transfer an additional EUR 1,495 thousand to the capital reserves of the investee arising in this context was fulfilled on January 2, 2020.

15. DECLARATION REGARDING THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 GERMAN STOCK CORPORATION ACT CODE

The Declaration of Compliance pursuant to Section 161 German Stock Corporation Act was issued by the Executive Board and the Supervisory Board of Softing AG and has been made permanently available to shareholders on the Internet at www.softing.com.

Haar, Germany, March 18, 2020

Softing AG

The Executive Board

Dr. Wolfgang Trier   Ernst Homolka

Independent Auditor's Report

TO SOFTING AG, HAAR

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Audit opinions

We have audited the consolidated financial statements of Softing AG, Haar, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2019 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of Softing AG, Haar, for the financial year from January 1, 2019 to December 31, 2019. In accordance with German law, we have not audited the contents of the executive directors' responsibility statement contained in the "Responsibility Statement" section of the combined management report, the "Corporate Governance Statement" section in the combined management report, including the reference to the Corporate Governance Report as part of the annual report, and the reference to corporate social responsibility reporting contained in the "Internal Management System" section of the combined management report, which is part of the annual report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1, 2019 to December 31, 2019, and

- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not extend to the contents of the components of the combined management reports, whose contents we have not audited, specifically the executive directors' responsibility statement contained in the "Responsibility Statement" section, the "Corporate Governance Statement" section, including the reference to the Corporate Governance Report as part of the annual report, and the reference to corporate social responsibility reporting contained in the "Internal Management System" section, which is part of the annual report.

Pursuant to Section 322 (3) sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537/2014; hereinafter referred to as "EU Audit Regulation"), and generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany [Institut der Wirtschaftsprüfer] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2019 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

RECOGNITION OF REVENUE FROM SERVICES OVER TIME

- Reasons why the matter was determined to be a key audit matter

In the consolidated financial statements of Softing AG, revenue of EUR 5,371 thousand from the customer-related development of software arising from the fulfillment of service obligations over time is reported. Provided that the criteria of IFRS 15 have been met, the revenue is recognized in accordance with the stage of completion, with the estimate of the stage of completion being based on the ratio of costs actually incurred in relation to the contract to the planned total costs ("cost-to-cost method"). In particular, estimating the planned total costs and appropriately allocating personnel expenses to the projects require the management to use estimates and assumptions.

Due to the complexity of the accounting, the long-term nature of the contracts and the resulting uncertainties relating to the estimates, this matter was of particular significance in the context of our audit.

• Our audit approach

As part of our audit, we assessed and tested, among other things, the processes and controls established by the Group in relation to recognizing revenue over time from the development of software for customers taking into account the stage of completion. We examined projects on a sample basis to establish whether the conditions for recognizing revenue over time as set out in IFRS 15 were met. Moreover, we evaluated the determination of the stage of completion of customer-specific contracts on the basis of the cost-to-cost method and the resulting proportion of revenue and profit recognized, bearing in mind the probability of an expected loss to be recognized immediately. In this connection we retraced the calculation of the planned total costs as well as of the costs actually incurred. In addition, we assessed the consistency of the methods used to calculate the costs incurred. Furthermore, in order to mitigate the inherent audit risk in this audit area, we ensured that audit procedures were consistently carried out throughout the Group.

• Reference to related disclosures

The Company's disclosures on recognizing revenue over time are contained in sections B.1, B.14, C.8 and D.1 of the notes to the consolidated financial statements.

DEVELOPMENT COSTS FOR INTERNALLY GENERATED PRODUCT DEVELOPMENTS

• Reasons why the matter was determined to be a key audit matter

In the consolidated financial statements of the Company, an amount of EUR 16,566 thousand for "internally generated intangible assets" is reported under the "intangible assets" item in the statement of financial position. This amount relates to development costs for new products and significant further developments (hereinafter "product developments"), which were capitalized in accordance with IAS 38. Development costs include direct costs and shared overhead expenditure. The criteria of IAS 38.57 determine whether internally generated product developments are eligible for capitalization – specifically the technical feasibility of completing the intangible asset, how the intangible asset will generate probable future economic benefits and the ability to measure reliably the expenditure attributable to the intangible asset during its development – and provide considerable scope for judgment. The asset is generally amortized over 5 years once the Company begins consuming the economic benefits from that asset. Own work capitalized contributed EUR 5,526 thousand to consolidated profit in the financial year. This was offset by amortization of internally generated intangible assets amounting to EUR 3,106 thousand. In our view, this matter was of particular significance for our audit because the capitalization and amortization of development costs are based to a large extent on management estimates and assumptions and are therefore subject to corresponding uncertainties.

- Our audit approach

As part of our audit, we evaluated, among other things, the capitalization requirements for individual projects, using the criteria set out in IAS 38.57.

We also assessed the methodology used to calculate the costs eligible for capitalization. We determined that the process for capitalizing development costs is appropriately designed and the established controls have been properly implemented. We assessed the amount of the capitalized development costs and the recoverability of the product developments on the basis of appropriate evidence. In so doing, we also inspected project records in order to satisfy ourselves of the respective percentage of completion.

- Reference to related disclosures

The Company's disclosures on capitalized development costs are contained in sections B.5 and C.3 of the notes to the consolidated financial statements.

RECOVERABILITY OF GOODWILL

- Reasons why the matter was determined to be a key audit matter

In the consolidated financial statements of the Company, goodwill amounting to a total of EUR 18,124 thousand (15.5% of total assets and 26.0% of equity) is reported. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The impairment test is carried out at the level of the groups of cash-generating units to which the relevant goodwill has been allocated. The carrying amount of the relevant goodwill is compared with the corresponding recoverable amount in the context of the impairment test. The calculation of the recoverable amount generally employs the value in use. The present value of the future cash flows from the respective group of cash-generating units normally serves as the basis of valuation. Present values are calculated using discounted cash flow models. For this purpose, the medium-term business plan adopted by the Group forms the starting point which is extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the relevant group of cash-generating units. The impairment test determined that no write-downs were necessary.

The outcome of this valuation is dependent to a large extent on the estimates made by management with respect to the future cash inflows for the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

- Our audit approach

As part of our audit, we assessed the methodology employed for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the medium-term business plan adopted by the Group, we evaluated the appropriateness of the calculation especially through reconciliation with general and sector-specific market expectations. Furthermore, we also evaluated the proper consideration of the costs for Group functions. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the valuation model. We retraced the sensitivity analyses performed by the Company, in order to reflect the uncertainty inherent in the projections.

- Reference to related disclosures

The Company's disclosures on impairment testing and goodwill are contained in sections B.6 und C.2 of the notes to the consolidated financial statements.

ACCOUNTING FOR LEASES (FIRST-TIME APPLICATION OF IFRS 16)

- Reasons why the matter was determined to be a key audit matter

The first-time application of the new accounting standard had a material impact on the opening balances as of January 1, 2019 and their recognition in financial year 2019. The modified retrospective method was applied in the transition to IFRS 16. We consider this to be a key audit matter because the first-time application of IFRS 16 in financial year 2019 is particularly complex, requiring a Group-wide assessment of the contractual basis in terms of the new criteria with relevance for financial reporting and the discretionary decisions and estimates to be made. As a result, this led to the recognition of new right-of-use-assets and lease liabilities of EUR 4,695 thousand as of January 1, 2019.

- Our audit approach

In our audit of the consolidated financial statements we examined the methods, processes and control mechanisms defined in the Company for assessing leases as well as Softing AG's approach in connection with the first-time application of IFRS 16. The completeness of the leases in use at the date of transition to IFRS 16 was reviewed by validating the portfolio of contracts against the contracts previously classified as operating leases. We also assessed the design and implementation of accounting-related internal controls by tracing specific business transactions from their origins to their presentation in the consolidated financial statements. Our audit procedures include a comparison in selected contracts of the data used for the measurement of the right-of-use assets and lease liabilities with the underlying contract data and a review of its plausibility. We determined our selection on the basis of qualitative and quantitative characteristics in a risk-oriented manner. In addition, the calculation method of the tool used and the accounting logic were evaluated by means of tracing and our own recalculations. Key components of the discount rates applied by Softing AG were assessed by comparing them with market data. Whether Softing AG had appropriately presented the first-time application of IFRS 16 including the main discretionary decisions and estimates in the notes was also examined.

- Reference to related disclosures

The Company's disclosures on accounting for leases under IFRS 16 are contained in sections A.3, B.10, C.5, C.14 and C.19 of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises:

- the statement in accordance with Section 264 (2) sentence 3 HGB, Section 297 (2) sentence 4 HGB on the consolidated financial statements and the statement in accordance with Section 289 (1) sentence 5 HGB and/or Section 315 (1) sentence 5 HGB on the combined management report,

- the Corporate Governance Statement in accordance with Section 289f HGB and Section 315d HGB referenced in the management report,

- the corporate social responsibility reporting, which is reference in the "Internal Management System" section in the combined management report, and

- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and those parts of the combined management report which were audited as to their contents, together with our audit report.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, the audited components of the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of such other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to §315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the General Shareholders' Meeting on May 8, 2019. We were engaged by the Supervisory Board on November 4, 2019. We have been the group auditor of Softing AG, Haar, since financial year 2019.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the Supervisory Board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Bastian Danesitz.

Munich, March 18, 2020

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

gez. Hager	gez. Danesitz
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

The above-mentioned auditor's report (Bestätigungsvermerk) and complete consolidated financial statements are both translations of the respective German-language documents.

Report of the Supervisory Board

for Financial Year 2019

The Supervisory Board of Softing AG carried out its duties as provided by law and the Company's Articles of Incorporation in financial year 2019. The Supervisory Board regularly advised the Executive Board in matters of management and diligently monitored its actions. The Supervisory Board was informed regularly about the situation of Softing AG and the Softing Group and monitored and accompanied the work of the Executive Board as well as compliance with applicable legal provisions and the Company's internal guidelines. The Executive Board informed the Supervisory Board in writing and orally about the business policies, fundamental questions of future business activities, the economic situation and future strategic development, the risk situation and risk management as well as significant business transactions, and discussed these matters with the Supervisory Board. The Supervisory Board was involved in decisions of material significance at all times.

A total of 8 Supervisory Board meetings were held in the 2019 financial year:

on February 8, March 22, May 8, July 15, September 25, October 30, December 2, and December 20.

The regular deliberations during Supervisory Board meetings and between the Executive Board and the Supervisory Board focused on the organizational and strategic development and orientation of the Softing Group, the positioning and financial development of Softing AG, and significant business events for the Company. Between meetings, the Supervisory Board was also informed of plans and developments that were of particular importance. The Supervisory Board thoroughly reviewed, discussed and approved all matters which require approval under legal provisions and the Articles of Incorporation or the Rules of Procedure.

Furthermore, in regular discussions with the Executive Board, the chairman of the Supervisory Board obtained information about important decisions and business transactions of special significance. He also held separate discussions with the Executive Board on strategy to explore the perspectives for and future alignment of each individual business.

Our deliberations and reviews focused on the entire accounting system of Softing AG and the Group, the monitoring of the internal control system as well as the effectiveness of the internal auditing and risk management system.

MAIN FOCUS OF THE MEETINGS

At the Supervisory Board meeting on February 8, 2019, the Supervisory Board dealt with the new tender for the audit of the annual and consolidated financial statements of Softing AG and the financial statements of its consolidated Group companies for the 2019 financial year.

At the Supervisory Board meeting on March 22, 2019, the Supervisory Board dealt with the Company's performance in the 2018 financial year and the first results for 2019. Another key item on the agenda at the Supervisory Board meeting was the adoption of the annual financial statements and the approval of the consolidated financial statements, both as of December 31, 2018, after the auditor, who was present, had reported on the completed audit and extensively answered questions by the Supervisory Board. The Supervisory Board concurred with the Executive Board's proposal for the appropriation of profits. At this meeting, the Supervisory Board also carried out the efficiency review recommended by the German Corporate Governance Code. The Supervisory Board came to the conclusion that its work was efficient. It also approved the Agenda for the 2019 General Shareholders' Meeting. In this context, the Supervisory Board proposes, on the basis of the invitation to tender and the presentation, that Rödl & Partner, GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich branch, be proposed as auditors to the General Shareholders' Meeting.

In the Supervisory Board meeting on May 8, 2019 after the General Shareholders' Meeting there was a recapitulation of the General Shareholders' Meeting. This was followed by a report of the Executive Board on the status and outlook of operations and the financial position. The Executive Board also presented the risk report as of March 31, 2019. The Executive Board also presented the medium-term financing plan, which was approved by the Supervisory Board.

On July 15, 2019, the Executive Board presented data and background information on the business figures for the first half-year and the financial planning at the Supervisory Board meeting. The Supervisory Board obtained a detailed report from the Executive Board on the development of business in the past first months, and the performance of GlobalmatiX AG was presented. Another topic was filling an executive management position at Softing Industrial GmbH.

At the meeting held on September 25, 2019, the Executive Board presented the report on the financial results for the period from January to August 2019. Furthermore, the Executive Board reported on the performance of GlobalmatiX AG. The Executive Board informed the Supervisory Board about a penalty payment to Bafin for failing to include a responsibility statement in the 2016 half-yearly report.

In the meeting on October 30, 2019, the Executive Board provided detailed information on the current status regarding customer acquisition, revenue and sales opportunities of GlobalmatiX AG. The pros and cons of acquiring a minority interest in a start-up company in the field of vehicle delivery services were also discussed.

At its meeting on December 2, 2019, the Supervisory Board approved the contracts in connection with the acquisition of a minority interest in a start-up company in the field of vehicle delivery services.

At the Supervisory Board meeting held on December 20, 2019, the Executive Board presented to the Supervisory Board a first estimate of the 2019 annual results, its business plan for 2020 and its multi-year planning. After careful review, the Supervisory Board approved the two plans. This was followed by the report on the performance of the GlobalmatiX acquisition. In this meeting, the Supervisory Board also addressed the recommendations of the German Corporate Governance Code and the topic of diversity in detail.

At that time, no amendments to the German Corporate Governance Code (GCGC) were available, so there was no need for Softing to make any adjustments. The Supervisory Board adopted the resolution required in this context.

It approved the Declaration of Compliance with the German Corporate Governance Code, which it had prepared jointly with the Executive Board; it is permanently available to the public at the Company's website. The annual review of the remuneration system was performed.

This was followed by the presentation of the new auditors, Rödl & Partner, and the approval of the consultancy contracts for the Supervisory Board.

All members of the Supervisory Board attended all Supervisory Board meetings in 2019. There was no conflict of interest of members of the Supervisory Board in the financial year just ended. The independence of the financial expert on the Supervisory Board was monitored on an ongoing basis and is assured.

COMPOSITION OF THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD

In the reporting year, the Supervisory Board was again comprised of Dr. Horst Schiessl (Chairman), Dr. Klaus Fuchs (Deputy Chairman) and Mr. Andreas Kratzer. The Supervisory Board did not establish any committees, given its size. Instead, the full Supervisory Board was responsible for all tasks and decisions. In the year under review, the Executive Board consisted of Dr. Dr. Wolfgang Trier and Ernst Homolka.

ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements of Softing AG were prepared in accordance with the German Commercial Code and the consolidated financial statements and the Group management report were prepared in accordance with International Financial Reporting Standards (IFRSs). The annual financial statements and the management report of Softing AG, and the consolidated financial statements and the Group management report as of December 31, 2019, were audited as required by law by Rödl & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Munich, Germany, the auditors appointed by the General Shareholders' Meeting. The auditors issued an unqualified auditor's opinion each for the annual financial statements and the consolidated financial statements. The auditors performed an audit in accordance with Section 317 (4) German Commercial Code and came to the conclusion that the Executive Board established a monitoring system which fulfills the legal requirements for the early detection of risks jeopardizing the Company's existence as a going concern and that the Executive Board took appropriate measures to detect developments at an early stage and avert risks.

The auditors stated their independence vis-à-vis the Supervisory Board as required by the German Corporate Governance Code and disclosed the audit and consulting fees received in the financial year.

The annual financial statements and the audit reports of the auditors were made available in time to all members of the Supervisory Board. At its financials meeting on March 18, 2020, the

Supervisory Board examined the annual financial statements and the management report of Softing AG as well as the consolidated financial statements and the Group management report presented by the Executive Board including the audit report prepared by the auditors of the financial statements. The auditors and the Executive Board participated in the meeting.

The auditors reported on their audit in general as well as on individual focal points and the significant results of their audit. They answered the questions raised by the members of the Supervisory Board in detail. The Supervisory Board approved the result of the audit. There was no reason to raise any objections based on the final result of this examination.

The Supervisory Board approved the annual financial statements and the consolidated financial statements for 2019 at its meeting on March 18, 2020. The annual financial statements are therefore formally adopted. The Supervisory Board agreed with the appropriation of the net retained profits proposed by the Executive Board.

THANK YOU

The Supervisory Board would like to thank the Executive Board and all employees for their extraordinary efforts and their achievements in the 2019 financial year.

Haar, Germany, March 18, 2020

Dr. Horst Schiessl
Chairman

Corporate Governance Report

The Executive Board and the Supervisory Board of Softing AG support many suggestions and rules of the German Corporate Governance Code and declare that they were and will be in compliance in the future with the recommendations regarding conduct contained in the Code's current and applicable version in the 2019 financial year, taking into account the exceptions and comments listed below. The Executive Board and Supervisory Board issued the Declaration of Compliance in December 2019. Below, the Executive Board and the Supervisory Board disclose and explain any deviations from the Code. You can download the full text of the Code from the Investor Relations section of our website at www.softing.com.

1. Softing AG (hereinafter: the Company) will comply with the recommendations of the German Corporate Governance Code, as amended on February 7, 2017, with the following exceptions:

a. **The Executive Board's duties to inform and report to the Supervisory Board are not specified in greater detail (Section 3.4 (1) sentence 3 of the Code).**
The Supervisory Board has not specified the Executive Board's duties to inform and report in greater detail because the Executive Board is already legally obligated to regularly inform the Supervisory Board about all material business transactions without delay. In addition, the Supervisory Board has not had any reason to find fault with the Executive Board's information policy to date.

b. **The Company currently has not agreed a deductible for the D&O insurance taken out on behalf of the members of its Supervisory Board (Section 3.8 (3) of the Code).**
The Company does not believe that such a deductible could enhance the motivation and responsibility of the members of the Company's Supervisory Board in carrying out their duties.

c. **The Company does not maintain Declarations of Compliance with the German Corporate Governance Code at its website for five years (Section 3.10 sentence 3 of the Code).**
It does not believe that it is necessary to store non-current Declarations of Compliance with the German Corporate Governance Code on its website for five years. Such postings do not offer new information relevant to the capital market.

d. **No consideration was given to the relationship between the remuneration of senior management and the staff overall, when determining the remuneration for the Executive Board (Section 4.2.2 (2) sentence 3 of the Code)**
Section 4.2.2 (2) sentence 3 of the Code recommends that the Supervisory Board consider the relationship between the remuneration of the Executive Board and that of senior management and the relevant staff overall, particularly in terms of its development over time. When the current director's contracts of the Executive Board members were concluded, the Supervisory Board ensured – in compliance with the requirements of the German Stock Corporation Act – that the overall remuneration appropriately reflects the tasks and performance of the respective Executive Board member and does not exceed what is a customary level of remuneration. Using the customary calculation method, the determination of the Executive Board's remuneration was oriented on the Company's scope of business, its economic and financial position and the structure of the Executive Board remuneration in place at comparable companies. Furthermore, consideration was given to the individual tasks and scope of responsibilities of the respective Executive Board member. To the extent that the Code, as amended, specifies reviewing the vertical appropriateness

of Executive Board remuneration, which is required by the German Stock Corporation Act, and provides a more detailed definition of both the peer groups relevant for comparison and the time period to which such a comparison applies, the Company as a precaution declares that it deviates from the Code. When reviewing vertical appropriateness, the Supervisory Board did not distinguish between the peer groups of the Code recommendation and did not collect any data regarding the development over time of the wage and salary structure, either.

e. Variable remuneration components with a multiple-year, forward-looking assessment basis (Section 4.2.3 (2) sentence 3 of the Code)
Executive Board remuneration already includes a multiple-year assessment basis. However, this multiple-year assessment basis does not have essentially forward-looking characteristics. The Company believes that additional, essentially forward-looking characteristics do not currently represent additional incentives for the Executive Board. The Supervisory Board and the Executive Board will, however, discuss a change in the assessment basis for variable remuneration during the next year.

f. Diversity in the Executive Board (Section 5.1.2 para 1 sent. 2 of the Code)
When appointing the members of the Executive Board, the Supervisory Board cannot also respect diversity because the Company currently has only two Executive Board members. Given that the Executive Board comprises just two members – a number the Company believes to be adequate and whose positions will be filled for the foreseeable future – the recommendations in the Code to aim for diversity do not appear feasible for the time being. Furthermore, the Supervisory Board does not consider it appropriate to select Executive Board members based on criteria such as orientation or race, but instead to rely on personality and expertise only.

g. The Supervisory Board has not set up any committees (Sections 5.3.1, 5.3.2, 5.3.3 of the Code).
Given the size of the Supervisory Board (three members), setting up committees is not considered necessary.

h. No age limit has been specified for members of the Executive Board and the Supervisory Board (Section 5.1.2 (2) sent. 3 and Section 5.4.1 (2) of the Code).
A specific age limit could be an undesired criterion to exclude qualified members of the Executive Board or the Supervisory Board.

i. Specification of concrete objectives regarding the composition of the Supervisory Board and preparation of a profile of skills and expertise (Section 5.4.1 (2), (3) and (4) of the Code).
The Company's Supervisory Board will not specify any concrete objectives regarding its composition, nor has it prepared a profile of skills and expertise for the entire Supervisory Board. Up to now, the Supervisory Board has exclusively based its proposals for the nomination of Supervisory Board members on the suitability of the male and female candidates with the aim of creating a Supervisory Board whose members as a group possess the knowledge, skills and professional experience required to properly complete its tasks. The Supervisory Board firmly believes that this approach works, which is why it does not see any need to change this practice. In particular, the Company does not intend to implement the recommendation to set a regular limit of length of membership because as a rule, the Company wishes to have access to the

expertise of experienced Supervisory Board members as well. The Supervisory Board does not consider a predetermined limit for the maximum period of service appropriate, since the term of office for Supervisory Board members stipulated in the law and Articles of Incorporation provide for a reasonable period for Supervisory Board mandates.

Since the Supervisory Board accordingly does not set specific targets regarding its composition and does not prepare a profile of skills and expertise, either, the recommendations in Section 5.4.1 (3) cannot be followed. For this reason, the Company also cannot follow the recommendations in Section 5.4.1 (4), according to which proposals by the Supervisory Board to the General Meeting shall take these targets into account, while simultaneously aiming at fulfilling the overall profile of required skills and expertise of the Supervisory Board. The implementation status can therefore not be published in the Corporate Governance Report, either.

j. **Performance-related remuneration shall be oriented toward sustainable growth of the enterprise (Section 5.4.6 (2) sent. 2 of the Code)**
In addition to fixed remuneration, the members of the Supervisory Board also receive performance-related remuneration based on consolidated EBIT before taking into account the Supervisory Board's variable remuneration. The Company's Articles of Incorporation thus do not expressly require a link to sustainable growth of the Company. The Company continues to believe that basing performance-related remuneration on consolidated EBIT of the respective financial year is a sensible approach, because due to the nature of its business, deliberate deferrals of expenses and income are hardly possible. Consolidated EBIT is a key performance indicator. Furthermore, no generally accepted model for basing the remuneration of Supervisory Board members on a company's sustainable development has established itself in the capital markets to date. For the time being, the Company will continue to monitor the situation.

k. **The Supervisory Board does not discuss quarterly or half-yearly financial reports with the Executive Board prior to publication (Section 7.1.2 sent. 2 of the Code).**
The Company believes that a separate discussion of the reports is not necessary because the Supervisory Board is informed regularly of the business transactions.

2. Since the publication of its most recent Declaration of Compliance in December 2018, Softing AG has generally been in compliance with the recommendations contained in the German Corporate Governance Code as amended on February 7, 2017. The Company has not observed the following recommendations: Section 3.4 (1) sentence 3; Section 3.8 (3); Section 3.10, sentence 3; Section 4.1.3 sentence 2; Section 4.2.2 (2) sentence 3; Section 4.2.3 (2) sentence 3; Section 5.1.2 (1) sentence 2; Section 5.3.1; Section 5.3.2; Section 5.3.3; Section 5.1.2 (2) sentence 3; Section 5.4.1 (2), (3) and (4); Section 5.4.6 (2) sentence 2; and Section 7.1.2 sentence 2.

Please see the explanations under no. 1 for the reasons for not observing the recommendations of the Code stated under no. 2.

Remuneration for the active members of the Supervisory Board in the 2019 financial year is presented in the notes of the 2019 annual report.

Disclosures regarding directors' dealings pursuant to Section 15a German Securities Trading Act (WpHG) are published in the Investor Relations section of our website at www.softing.com.

CORPORATE BOARDS AND DIRECTORS' HOLDINGS

Boards	Shares		Options	
	June 30, 2019 Number	Dec. 31, 2019 Number	June 30, 2019 Number	Dec. 31, 2019 Number
Supervisory Board				
Dr. Horst Schiessl (chairman), attorney at law, Munich	–	–	–	–
Dr. Klaus Fuchs (member), graduate computer scientist and graduate engineer, Helfant	278,820	278,820	–	–
Andreas Kratzer (member), certified public accountant, Zurich, Switzerland	10,155	10,155	–	–
Executive Board				
Dr.-Ing. Dr. rer. oec. Wolfgang Trier, Munich	151,826	151,826	–	–
Ernst Homolka, Munich	1,800	4,900	–	–

FINANCIAL CALENDAR

March 27, 2020	Consolidated Financial Statements/Annual Report 2019
May 04, 2020	Interim Management Statement Q1/3M 2020
May 06, 2020	General Shareholders' Meeting 2020
August 14, 2020	Half-yearly Report Q2/6M 2020
September 16, 2020	Zurich Capital Market Conference
November 13, 2020	Interim Management Statement Q3/9M 2020
November 16–18, 2020	German Equity Forum, Frankfurt/Main
December 8–9, 2020	Munich Capital Market Conference

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